

## OUR ECONOMIC LIFE



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# OUR ECONOMIC LIFE

*In the Light of Christian Ideals*

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*Prepared by*  
A SPECIAL COMMITTEE  
FOR THE  
DEPARTMENT OF RESEARCH AND EDUCATION  
OF THE  
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## FOREWORD

TEN years ago a group of persons convened under the auspices of the Federal Council of Churches prepared a study book entitled *Christianity and Economic Problems*, edited by Kirby Page and published by the Association Press. That little book was very widely used but is now out of print, and the present volume is designed to take its place. Though prepared on a somewhat different plan, its subject matter and aim are the same as those of the earlier one.

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## INTRODUCTION

THE concern of Christianity with economic and industrial matters is now coming to be recognized as inevitable. It rests upon two main facts of religious history and of human experience.

First, Christianity in its origin and throughout its history and by the terms of its charter in the New Testament is committed to the principle that human life is of incalculable worth and that personality outweighs all other values. In its very beginning Christianity was bound up with the spiritual aspirations and the destiny of the common man. The *Magnificat* has been well called the "Storm Song of Democracy."

He hath put down the mighty from their seats,  
and exalted them of low degree.

He hath filled the hungry with good things;  
and the rich He hath sent empty away.

This fiery poem cannot be taken as an adequate expression of the Christian attitude, but it reveals the deep social roots of Christianity.

Although this social passion has often been deadened by temporal interests and although its meaning has many times been obscured by heated theological controversies, the Christian Church in its vital moments has always been a religion of emancipation and redemption for the man farthest down. For this reason the early Church was filled largely with "freedmen"—people who had lately acquired liberty and who sought in the Christian community the expression of a new-found freedom.

The modern age, more than any other in Christian history, emphasizes the importance of this concern for the common man. Vast accumulations of property and giant machines



have engulfed the individual worker, taken away the status which labor once enjoyed, concentrated the industrial population in congested communities, and surrounded them with physical and moral hazards. Christianity, which seeks to redeem and enrich human life, must deal with the worker's material environment and with the economic conditions that limit his development if its ministrations are to reach the worker himself. The much talked-of conflict between individual and social religion loses its meaning when Christianity sets out in the modern world to *find* the individual. He is too deeply enmeshed in the social system with its exacting factory discipline, its congested housing, and low standards of living to respond permanently to influences which do not affect his environment as well as his own spirit.

The second main fact upon which rests the concern of Christianity with economic and industrial conditions is the social quality—the element of fellowship—in Christianity itself. It has always been a religion of brotherhood. Its most holy sacrament is the outgrowth of a simple community meal in which neighbors broke bread together. From the beginning they could say:

We share our mutual woes,  
Our mutual burdens bear.

The Christian Church has been appropriately called the "beloved community," for its central fact is fellowship.

Today Christianity faces the task of introducing fellowship and vindicating brotherhood in a world where conflict and competition between individuals and groups continually deny the Christian testimony. And the greatest of conflicts is the battle for bread, the struggle for economic security. Christianity maintains that men may carry on all the essential functions of society and attain a dignified status among their fellows without a perpetual clash of interests. Our economic life is basic to every human interest. Christianity proposes to spiritualize it.

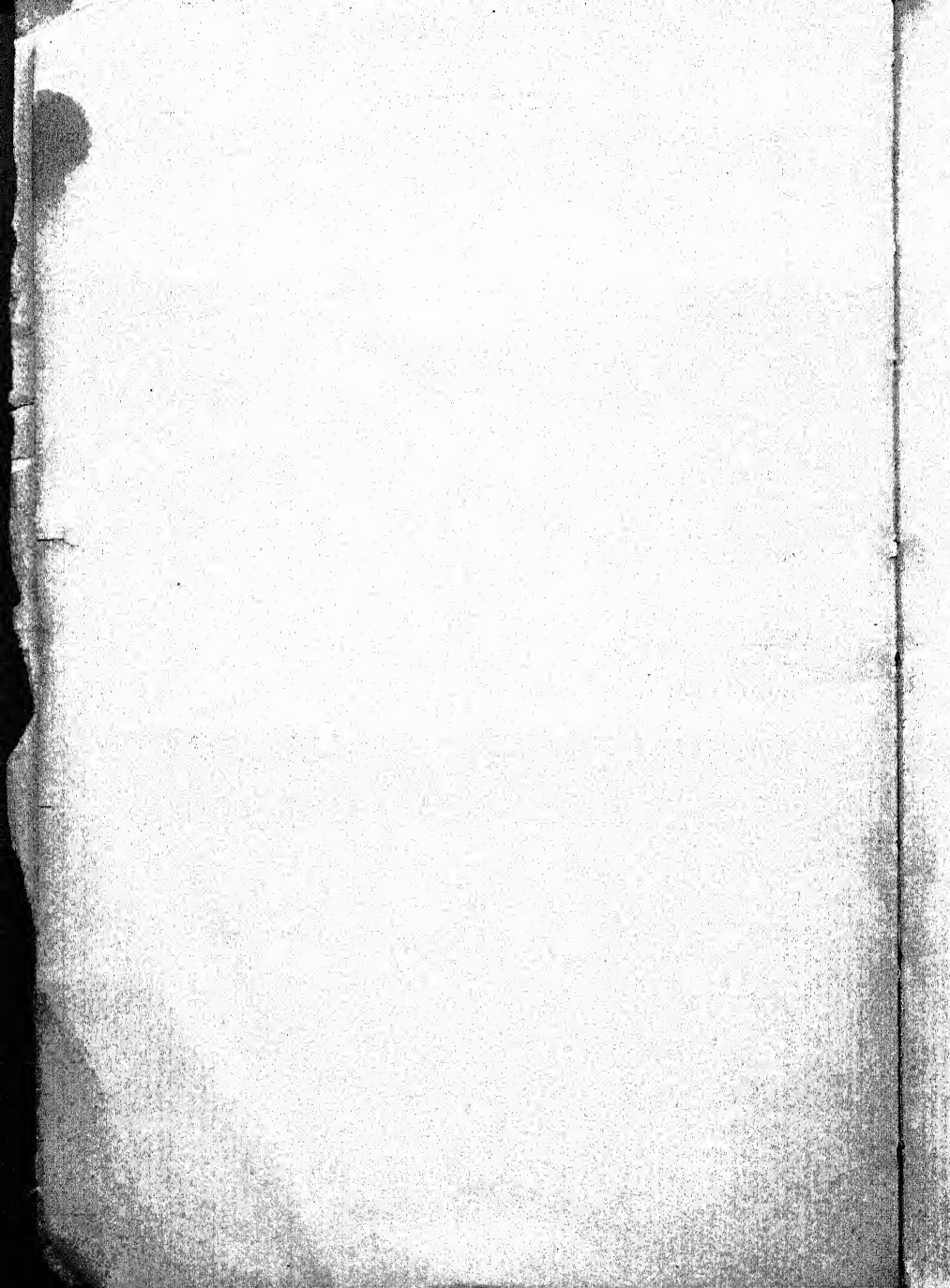
It is in the interest of serious inquiry as to how the con-



cern of Christianity for the enrichment of human life and for the reign of goodwill among men may become effective that this book has been written. No attempt has been made at a systematic presentation of Christian teaching as applied to economics and industry. That task has been done in *The Church and Industrial Reconstruction* (New York, Association Press, 1920) and in many other pronouncements by the Federal Council and its constituent bodies. It is assumed that the reader is familiar with such interpretations of Christianity as are contained in the Social Ideals of the Churches.\* The concern of this book is rather with the ways in which our economic life may be so ordered as to exalt those spiritual values that are implicit in the Christian religion. In the light of assumed Christian ideals the writers have undertaken to set forth economic goals and to suggest ways by which they may be approached. In particular, they have sought to show the correspondence between the requirements of Christian ethics and the essential findings of contemporary economics. The aim has been to offer practical help to Christians who are earnestly desirous of shaping economic life in accord with the principles of Christianity.

\* Obtainable from Commission on the Church and Social Service, 105 East 22nd Street, New York.

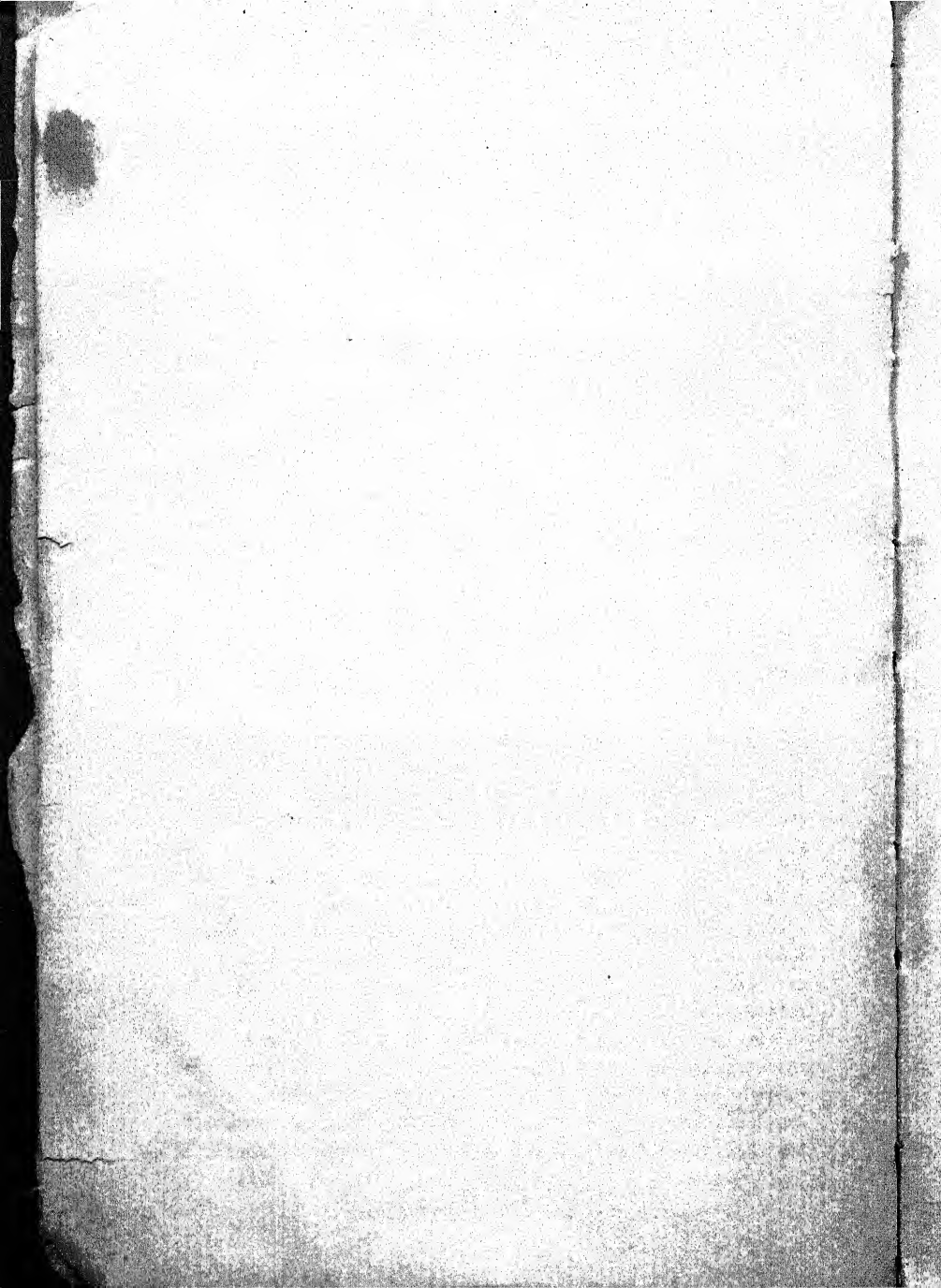






OUR ECONOMIC LIFE







## CHAPTER I

### THE ECONOMIC CRISIS AND ITS CAUSES

OUR economic system has been suffering from a devastating disease known as industrial depression. The present world-wide economic crisis has brought so much unemployment and suffering among wage and salary workers, so much business havoc and financial distress, that scarcely any one has escaped. Responsibility for bringing about better functioning of the economic system rests not only upon business men and financiers, but also upon all who profess faith in spiritual ideals as potent forces in the world. Such prosperity as returns will be brief unless the lesson of the depression is learned.

Millions of people have been unemployed for long periods of time. Savings have been exhausted, bread lines have appeared, and the country has reluctantly resorted to a "dole," which has placed on the relief agencies an overwhelming burden of providing food, clothing, and shelter. We have found ourselves in poverty—in the midst of plenty. And our troubles are not merely those of a depression period. Even in so-called prosperous times a considerable percentage of the population are below the poverty line. The depression has merely accentuated the symptoms of a long-standing ailment.

The combined relief efforts of public and private agencies have been but partly effectual. Undernourishment, exposure, and even death by starvation, have become common occurrences in all our great cities.

The depression created havoc in business. The loss of markets, part-time operation, shut-downs, and bankruptcies brought on a creeping paralysis throughout the economic system. The financial system, too, has largely broken down during the depression. Failures of national banks during 1930



and up to October 31, 1931, totalled 473, while state bank failures in 1930 and up to June 30, 1931, numbered 1,882. This was very much in excess of "normal." The losses to depositors and to bank stockholders were huge. The decline in value of long-time securities held by the banks turned them into "frozen assets." Many depositors lost confidence in the banks and withdrew their funds; hoarding became widespread and threatened the stability of the whole banking system. The larger and stronger banks made every effort to maintain a "liquid" position in order to be able to meet demands for cash. They did not come to the aid of smaller banks in distress as the Federal Reserve System contemplates that they should. Insurance companies, savings banks, educational and other institutions having large holdings of long-time securities, found themselves in a precarious position. As a result, the federal government found it necessary to take measures to restore confidence by extending credit. The Reconstruction Finance Corporation was established, and used government money and credit to take over frozen assets and put the banks in a position to serve commerce and industry.

Indeed, the operation of our banking system seems to make for instability. Even in 1923, one of the best years following the World War, there were 52 failures among national banks and 237 among other banks. Nations having more centralized systems than ours and stringent rules on banking practices have had very few failures. Canada and Great Britain, for example, are practically free from them.

How can banks which are private enterprises be induced or compelled to abandon unsafe practices which yield immediate profits but which undermine the stability of the credit system? The fact that banks do business mostly with other people's money has forced this question more and more upon the public mind. That it is being faced by the financial community itself is shown by the following statement, made in June, 1932, by J. Stewart Baker, vice-chairman of the Bank of Manhattan Trust Company of New York:

"The relationship between the banking departments of the



state and federal governments and the banks and trust companies is quite misunderstood by people generally. They apparently have believed that governmental supervision of an institution insured its good management, integrity, and solvency.

"Having come to realize that this is not the fact, they are not going to be satisfied with the present arrangement.

"It therefore seems to me that we must face two possibilities: either the public will demand a banking department which not only supervises but to a large extent controls and directs, so that it can feel secure in dealing with any institution that is subject to such a department, or else the banks themselves will take steps to control and direct each other, so that unsound and unsafe practices will not be tolerated among them and the public will have confidence in their ability to maintain a standard to which all must adhere."

Our banking system reflects, of course, our national individualism. It has apparently suited the American temper to allow great latitude to the individual. In the realm of credit, at least, we seem to pay a high price for this freedom.

The causes of an economic crisis are many and of varying degrees of importance. Only the particular and immediate causes will be discussed here. Remoter causes, lying deep in our economic organization, will be considered in Chapter II.

#### RESULTS OF THE INFLATION OF CREDIT

Credit is the most voluminous form of purchasing power: it is the means by which most of the country's business is done. If the government increases the volume of currency beyond the needs of the business world, or if the banking system expands credit too fast, prices become inflated, and a feverish period of business activity follows. "Buying cheap and selling dear," and speculating for a rise in values are carried to absurd lengths. The desire to "get rich quick" becomes a craze. Banks and business corporations having surplus funds pour them into the call-loan market in order to take advantage of the high interest rates which speculators on margin and others are willing to pay for loans. (The



term "call loans" is used to denote loans made subject to call by the lender, and the interest rates are sometimes very high. By speculation "on margin" is meant "buying" by putting up a fraction only of the actual price of the goods or securities in question. If the price falls by more than the margin the so-called buyer loses all he put in.) This speculative game is virtually gambling. It becomes a craze among salary and wage workers. The prices paid for securities go far beyond values on which the business concerns that issue the securities can be expected to pay fair returns. Nevertheless, speculators expect to be able to sell their securities to somebody for more than they paid. Finally, the bubble of inflation bursts. This is what happened in October, 1929. In all this the banks and others who lend funds to support the gambling game play anything but a constructive part. What can be done to avert such developments is one of the most challenging questions facing industrial nations.

#### WHEN PRODUCTION OUTFRONS PURCHASING POWER

The accumulation of surpluses derived from profits, interest, rent, and high salaries creates a problem. Since wage and salary workers are the majority of the consumers, they must have sufficient purchasing power to buy the larger part of the goods produced if production is to be regular. If too much of the national income is distributed in the form of profits, interest, rent, and high salaries, the recipients of which are few in number, the requirements of these few, for luxuries as well as necessities, are not great enough to use their surplus income. The ordinary course is to invest this surplus in productive equipment. Thus a pyramiding process goes on, tending to glut the market with goods. Furthermore, if the new productive equipment displaces labor instead of providing more jobs it hastens development of an economic crisis which, in turn, results in forced liquidation, a depreciation of values and of prices, the depression of business, and increased unemployment.

Thus, in its effects on the business cycle, there is such a thing as too much saving. Even people with moderate earn-



ings tend to accumulate capital until surpluses become of doubtful value. The accumulation of surpluses in the hands of a few results in a process of forced saving for the creation of an excessive amount of productive equipment. Over-expansion of productive equipment in some industries throws the economic system out of balance. In every modern industrial nation there is obviously need for more careful consideration of just how much of the annual income of the nation should be devoted to the increase of productive equipment, and how much should be distributed among the mass of consumers in order that they may be able to buy the goods which have already been produced. The method of such distribution is a separate problem.

The situation is, to be sure, not without a wholesome aspect. For in modern times the volume of production has been increased steadily through the use of power-driven machinery and improved processes and through more efficient industrial organization. Its increase has been fast in relation to that of the population, making possible an improved standard of living in every industrial nation. In other words, we are operating on an economic plane of surpluses instead of, as for centuries past, on an economic plane of deficits. This fact of the substitution of a surplus economy for a deficit economy is momentous.

But, since technological improvements have enabled the workers and managers of industry to produce more in less time and with less effort, many workers have been displaced. Industrial nations have done little to help displaced workers find employment in other occupations. Thus unemployment due to technological improvements and to lack of balance between production and consumption throughout the economic system has become a major problem. The investment of profits in further productive equipment results in a further displacement of workers, and we have a vicious circle. Only investments which provide more jobs help to stabilize business.

It is true that economists differ on the results of technological unemployment. Some point to the fact that machines



have always displaced men and that industrial progress has gone on, notwithstanding. They point out that new demands are constantly arising and that workers displaced by machinery can be employed in new plants and in new kinds of production. On the other hand, many economists—and probably the weight of technical opinion is on this side—contend that the rapid increase of machinery has contributed seriously to the volume of unemployment. If the growth of business were regular, if the curve which continually swings up and down could be “smoothed” out, we might assimilate our inventions and absorb the labor which they displace. But, owing to the recurrence of inflation and deflation, this process of absorption does not take place continuously. Furthermore, technological changes do not stop when business slows down. During the present depression there has been a spurt in industrial technology as a means of reducing costs. This has served only to increase our troubles.

All of this brings us back to the problem of distributing purchasing power so that the goods flowing from our industrial plants may be absorbed. There could scarcely be a more striking example of the interdependence of economics and ethics. The interests of business and of the nation as a whole cannot be separated from the requirements of justice and the extension of the “good life.”

That we are victims of an economic disease is shown by the fact that unemployment on a large scale characterizes industrial nations even in comparatively prosperous times. From 1920-1927 it is estimated that unemployment in the United States ranged from 1,500,000 to 2,315,000. The estimate in 1932 was about 10,000,000.

As a result of all these considerations the question is being asked in many quarters whether society should not take steps to limit the amounts which a minority shall be allowed to derive from profits, interest, rent, and high salaries.

#### THE PROCESS OF DEFLATION

As demand slackens commodity prices begin to decline. Decreased demand and lowered prices force many producers



to diminish production. Workers are given only part-time employment or are laid off. The more extensive the employment the more restricted is the purchasing power of the workers. This causes a still further reduction in prices. When prices are declining employers cut wages and salaries in order to gain competitive advantage in existing markets and to avoid suspension of operations. All prices, wages, and salaries, however, do not decrease proportionately. In general, persons in a position of advantage exact as much in the way of prices and wages as they can. During deflation this prolongs the process of readjustment to lower price levels. The more the process of liquidation is prolonged the more the depression is felt throughout the economic system.

It should be noted that investors and wage earners are by no means on the same footing with reference to this process. In prosperous years reserves are built up with which to protect investors by maintaining interest and dividends during depressions; but wage and salary workers are not protected from reductions in their incomes except as they are able to accumulate individual savings. According to data collected by the Standard Statistics Company, Inc., dividend payments increased from \$3,478,300,000 in 1929 to \$4,225,700,000 in 1930 and declined to \$3,703,500,000 in 1931. Thus, even in 1931, after two years of depression, the recipients of dividends were still drawing more than in 1929. Interest payments increased from \$4,110,600,000 in 1929 to \$4,374,500,000 in 1930 and to \$4,554,800,000 in 1931. Recipients of dividends, interest, and rents, even though their payments are reduced, are in a protected position compared with that portion of the wage and salary workers whose income is cut off entirely by unemployment or greatly diminished by part-time unemployment. Furthermore many such recipients of dividends, interest, and rents may continue to have more than enough to provide for their usual expenditures, while for wage and salary workers, generally speaking, a diminution of income means the cutting down of budgets and a decrease in consumption. And for millions of wage and salary workers a depression cuts off income altogether.



The disparity between investors as a class and wage and salary workers as a class may be illustrated on this wise. When earnings drop off the stockholder is carried as long as possible by means of dividends paid out of surplus, as the figures cited above indicate. The stockholder does not receive word from the corporation office that his capital has been "laid off." He may, to be sure, as an investor, become a victim of part-time unemployment of his capital, but this eventuality is staved off for a considerable period, and he never has to fear that his stock may be, so to speak, dropped from the dividend payroll. A "passed" dividend leaves his claim to future dividends unimpaired and in fact may create a cumulative claim to later rewards. He is not just laid off—dropped—which is what happens to millions of workers who have greater stakes in the industry than can be represented by money. They suddenly find their status destroyed. So far as the industry is concerned they cease to be. Thus their status is vastly inferior to that of the investor.

It must not be overlooked, of course, that many concerns operate for years without paying dividends on common stock, while they pay wages continuously. In time of disaster, also, owners have more to lose than workers, and the legal liability of owners is greater than that of wage workers. But the fact remains that the mass of wage earners have but a fraction of the security that belongs to those who live by investments. This is one of the important facts that the present depression has thrown into high relief.

During deflation those who have funds are in position to acquire commodities and properties at greatly reduced values. Creditors frequently take full advantage of the opportunity to drive their debtors to the wall. The failure of business concerns and banks threatens the financial structure of the economic system. Depositors become panicky, withdraw their funds, and hoard them. This reduces the liquid assets of the banks. Only the strongest banks are free from the fear of a run on them by their depositors, and even they seek to maintain a high degree of "liquidity" and with reluctance come to the aid of banks in distress. When strong banks do offer such



assistance by taking over assets, they have every advantage in dictating prices. This results in a rapid process of concentration of ownership and control of banks and business concerns. After liquidation the strong banks and business concerns are in a position very largely to dictate the conditions under which business shall be resumed.

#### TARIFFS, REPARATIONS, AND WAR DEBTS

The industrial depression in the United States was caused not only by domestic conditions but also by conditions in other nations. No modern industrial nation can be entirely self-sufficing. It must import things which it cannot itself produce or which it needs in greater quantity than it can produce. Many industries can produce more than is needed for the home market. This provides a surplus to be exchanged for imports. Many industries in the United States were affected adversely during the depression because other nations either could not afford to buy or had set up tariffs on imports. On the other hand, the high tariffs of the United States hindered imports.

Vested interests in every nation protected by tariffs and other restrictions fear the competition of imported goods. The tariff duties are paid by the consumers as part of the prices of imported goods. Moreover, prices of domestic goods tend to increase by the amount of the tariffs on competing goods. Thus domestic producers may collect from consumers as much or more than the government collects in customs on imports.

Since the World War the trade relations between modern industrial nations have been greatly complicated by the payment of reparations and war debts. For the most part, payment can be made only in goods. To make payment a nation must have a surplus of goods for export. In the last analysis, creditor nations must be willing to take payment in the form of goods. Failure to understand this fact has led to great confusion over the problems of war debts and reparations. Payment in gold is impossible, because it would fatally upset the monetary exchanges. So long as each nation op-



erates as an economic unit with its own currency system, a balance between imports and exports must be maintained. The export of gold is resorted to only exceptionally to keep a nation's credit good. The limited supply of gold would of itself prevent payments through that medium. Hence, high tariffs which impede trade are coming to be regarded by the economists of the world as the foe of prosperity for all nations alike. A debtor nation must be able to sell goods in foreign markets or must default in its payments. Nevertheless, tariffs continue, because domestic producers strenuously object to the competition of foreign goods.

Thus reparations, international debts, and tariffs have complicated the relations of European nations and hindered trade among themselves as well as with the United States. The United States, on the other hand, as a creditor nation, has been unwilling to receive payment of international debts in the only form in which they can, to any great extent, be paid, that is, in a large volume of imports. Against such payments we have erected high tariff walls. Doubtless these tariffs not only have hindered the payment of war debts but have incited other nations to raise their tariffs in retaliation. The reparations settlement, reached at Lausanne in July, 1932, appears to depend upon a subsequent revision of the war debts settlements. If the vicious circle is to be broken, it seems clear that war debts must be readjusted in accordance with the capacity of debtor nations to pay, and that tariffs must be lowered. Thus the need for international trade coincides with the growing spirit of world brotherhood.

#### BALANCING THE BUDGET

The United States, in the throes of an industrial depression, has found it difficult to balance the federal budget. The revenues of the local, state, and federal governments have declined greatly because the incomes of businesses and of individuals have decreased. When revenues are declining governments may decrease their expenditures, increase taxes, or borrow; or they may do all three. A decrease in expenditures, however, except for the elimination of waste and in-



efficiency, may be poor economy. The services of the government are so important for all elements in the population that a niggardly policy is likely to be a boomerang.

On the other hand, an increase in taxation in some forms during a depression may result in disproportionate burdens. A general sales tax, for example, is likely to fall most heavily on poor people, and is open to serious criticism even in prosperous times. Income and inheritance taxes, on the other hand, when levied in proportion to ability to pay, are considered by experts to be the fairest form of taxation. Sales taxes on many forms of luxuries also are borne by those most able to pay. The total amount collected in taxes by all branches of the government varied from 10.2 per cent of the national income to 12.5 per cent between 1922 and 1928—an indication that the American people were not heavily burdened by taxation even in relatively poor years.<sup>1</sup> Such a year was 1922, when the percentage was 12.5. The years 1924 and 1927 were also relatively poor years, as compared with others in that period. The fact that during the depression government offerings of securities have been greatly over-subscribed indicates not only that there are many who can bear heavier taxation but that there are vast funds which can be borrowed for public works and the relief of unemployment. The enormous volume of savings bank deposits points to the same conclusion.

In fact, it is the well-considered opinion of leading experts in public finance that failure on the part of the government to spend for public works and the relief of unemployment will be a cause of continued depression. They insist that a depression emergency should be met by government borrowing in quite the same way that borrowing is used to meet a war emergency. Expenditures for public works not only help to set the wheels of industry in motion but they are productive in the broadest sense of the term. It is forcefully argued that the burden of interest on borrowings for public works would be more than offset by increased prosperity

<sup>1</sup> National Industrial Conference Board, *Cost of Government in the United States, 1927-1928*, New York, The Board, 1931, p. 69.



which would provide a basis for greater government revenues. Such a policy would, of course, require a careful discrimination between types of projects so as to create maximum employment with minimum increased charges upon the community.

This survey of the causes of economic crises indicates that society can ill afford to tolerate practices which encourage the frequent recurrence of industrial depressions. What can be done to diminish their severity and to eliminate them is a question that necessitates a careful consideration of the fundamental characteristics of our economic system in which many of the causes are to be found. The chapters immediately following deal with aspects of the present order which should be carefully scrutinized.



## CHAPTER II

### OUR ECONOMIC SYSTEM AS A WHOLE

SOME characteristics of the existing economic system have been touched upon in the last chapter. However, its fundamental features need more detailed examination. They have come into being by a slow process of evolution, and they need to be examined in order that the future may bring more satisfactory development.

#### DIVISION OF LABOR, SPECIALIZATION, AND LARGE-SCALE PRODUCTION

Although anthropological and historical records indicate that there was division of labor even among primitive peoples, the present high degree of specialization is a modern development. For example, under cotton manufacturing 70 different occupations have been listed by the census of manufactures. The introduction of power-driven machinery, by facilitating the division of labor and specialization, in itself amounted to an industrial revolution.

The transition during the last century from handicraft manufacture to a factory system with power-driven machinery involved many changes in the life and work of the people in every industrial nation. Whereas, formerly, craftsmen had owned their shops and tools and had dealt directly with their customers, labor was now compelled to seek work in factories owned and managed by employers who used power-driven machinery. The employers bought labor in just the same way that they bought commodities. Increasing numbers of people were crowded into towns and cities. Factories were located in places where raw materials, labor, and transportation could be obtained most cheaply. Division of labor was greatly elaborated and specialization was intensified.



Furthermore, the diversification resulted in a division of labor between industries. Thus it has come about that the whole economic system is organized on the same principle on which a factory is divided into departments. Moreover, industries are quite as dependent upon one another as are the departments of a factory. However, the division of labor and specialization both within and between industries have been accentuated and their interdependence has had scant recognition. Under the rule of competition individual factories and industries have over-expanded productive equipment and have gone on producing until markets became glutted. This explains a great deal of the chaos in modern industry. Good management in the economic system requires coördination of industries and of industrial units as well as coördination of departments in a factory.

The increase in power-driven machinery and the development of transportation and of a distributive system enabled employers to produce goods on a large scale for an increasingly widening market. Markets became national and international in scope. Banking systems were developed to serve the needs of manufacturers and merchants in local, national, and international markets. Loans were extended to provide additional productive equipment and to finance trade transactions.

#### THE INSTITUTION OF PRIVATE PROPERTY

Private property, as an institution, rests upon ideas, attitudes, sentiments, and practices pertaining to the ownership and use of wealth. These have the sanction of society and laws are made defining rights and duties. The rights of use, of disposition by contract, gift, bequest, or inheritance, and of unlimited acquisition are the principal rights which have been thus sanctioned. The elaboration of these rights came gradually, following the breakdown of feudalism and the growth of nationalism.

Under the institution of private property the more powerful individuals were able to acquire an increasing amount of wealth. The protection given by society provided a particu-



larly favorable setting for the elaboration of the right of unlimited acquisition. Industrialists and merchants acquired an increasing control of wealth, income, and investment. Furthermore, this control gave them increasing power over the lives of people who were unable to acquire wealth. The poor became steadily more dependent upon the wealthy for an opportunity to gain a livelihood.

For example, the manager of a modern corporation owning plants in many parts of the country may give an order to shut down a plant in one community and thus throw thousands out of work. A community dependent principally on one industry may be thus deprived of its prosperity and the value of property owned by merchants and others may depreciate in consequence. Hence, the significance of the term, a "one-industry town."

The ownership of wealth is concentrated in the hands of a comparatively small percentage of the people. Hence property rights are held subject to limitation in the interest of the people as a whole. The courts are continually limiting these rights in one way and another. The question is, how far must property rights be modified in the light of changing conditions and in the light of the great concentration of wealth?

Here again, one must guard against a one-sided reading of history. Admittedly, such progress as has come about in this industrial age has taken place under a system of private property. One of England's most socially minded employers once remarked that, with due regard to economic ills, a system that gets the national industrial army up and to work every morning is worth something! Since he said that, however, a large proportion of them have stopped going to work. What concerns us here is to find out wherein and why the system under which we have grown up is faulty as judged by ethical standards—which means, by sound economic standards.

### THE PRICE SYSTEM

Prices affect not only the relations between industries but also the relations between the various economic classes of the



community. Prices are the chief regulator of economic life. They are paid for commodities (this is the common meaning of "price"); for services (wages, salaries, and fees); for money and credit (interest); for the use of durable consumption goods (rent); and for risk and enterprise (profits). Prices vary with fluctuations in the business cycle over a period of years, from prosperity to depression, and from depression to prosperity. They vary with the change in seasons. They also tend upward or downward over long periods quite independently of the business cycle.

In the competitive system the general trend of prices upward or downward has important effects on business activity. When the trend is upward business men are content, because they can buy or manufacture at a relatively low cost and sell at a higher level. At such a time even the inefficient can make profits. When the price trend is downward only the relatively efficient can make profits. This is accomplished by reducing costs more rapidly than prices decline. But this means that for business as a whole prosperity usually wanes when prices go down, and that labor and the community as a whole suffer correspondingly.

The devastation caused by the World War, the reparations and the war debts, restrictions on trade and disorganization of markets, reduced purchasing power, and deflation of currencies have caused a world-wide drop in prices. The result has been a world-wide depression because opportunities to make profits have been greatly diminished. Production is carried on primarily to make profits. Capital, productive equipment, and labor may be plentiful and the need for commodities may be great, but, unless the opportunity to make profits is present, business slows down.

The fluctuations in wholesale prices tell the story. Between 1913 and 1920 the index of wholesale prices (taking the level of 1926 as equal to 100) increased from 69.8 to 154.4. The depression of 1921-1922 caused a drop to 96.7. In 1923 it increased to 103.5, but since then there has been a steady decline, until in April, 1932, it was 65.8, or a little below the 1913 index. Such a huge reduction puts a great strain on the business structure of the nation.



Prices are determined by several factors. They are affected by the cost of production and by demand and supply, but these factors are in turn affected by many others that are subject to manipulation. Production costs are influenced by wage levels, which often depend on the degree of labor organization. The supply may be limited by monopoly and thus prices may be forced to an artificial level. Or a bumper crop may bring prices too low. Demand, also, may be influenced by arbitrary changes in fashion or by advertising campaigns. Thus prices are very unstable. Furthermore, when commodity prices are advancing, money wages and salaries lag behind. If the workers are unorganized and therefore not in position to exact their proportionate share of the national income, this lag is the more marked. And since there is no exact basis for determining the relative worth of the services rendered by different groups of wage and salary workers, many of them, because of special advantage, may receive more than their proportionate share of the amount paid as wages and salaries. As the national income increases, however, it is particularly important that the wage and salary workers in general should share in the increase, because their purchasing power furnishes the chief demand for commodities and services. Economic crises result from a lack of balance between production and consumption.

What economists call "real" wages and salaries (what money wages and salaries will buy) vary with changes in the cost of living. Real wages can be increased either by an increase in money wages, or by a decrease in the cost of living, or by both. The cost of living may be decreased by increasing efficiency and reducing production costs, which result in lower prices. But the standard of living of a nation as a whole can be raised only by increasing production and by coördinating the various industries in the economic system in such manner as to effect a wide distribution of purchasing power. Thoroughgoing coördination would involve the control of production, the control of capital investment in order to prevent over-expansion in any one industry, the establishment of proper price ratios within industries and between industries, the control of money and credit in order to prevent





inflation, and the proper distribution of national income among producers and middlemen and among those who receive their income in the form of wages, salaries, interest, rent, and profits. Extreme reconstructionists advocate securing these ends by an enormous expansion of government functions.

### THE INSTITUTION OF COMPETITION

Under the régime of handicraft manufacturing, competition was minimized in order to give the workers security of status. The principle of a "just price" was recognized—a price for work or commodities which would enable the workers to maintain their station in life. Regulations were enforced by craft guilds, pertaining not only to market transactions but also to the quality of work and to training for work.

With the development of the factory method, transportation facilities, markets, and banking systems, competition became an established institution. The theory became prevalent that, if business men were left free to compete for existing markets, competition would automatically redound to the good of the mass of the people: efficiency, lower costs, and lower prices would give the masses the greatest possible amount of goods. The policy of governments was shaped on the assumption that private property, freedom of contract, and competition would result in the greatest welfare for the greatest number. How far has this assumption proved to be correct? Undoubtedly, competition often eliminates less efficient producers and distributors, to the advantage of the community. But when competition drives competent people out of business or deprives them of the opportunity to make a living it raises both an ethical and an economic question.

### FREEDOM OF CONTRACT

Freedom of contract has been regarded as a necessary accompaniment of the institutions of private property and competition. Governments found it necessary to enforce contracts in order to reduce the chaos of the competitive system. "Some sort of contract," says Professor Richard T. Ely, "lies at



the basis of all associated activity. To secure the conditions of such activity, it is necessary, first, that men should be allowed to bind themselves; and second, that they should be compelled to abide by the agreement thus entered into. The entrance into a valid contract is ordinarily voluntary, but once entered into with due formality, the state will use its superior power to enforce it."<sup>1</sup>

Freedom of contract, as a legal concept, has been the occasion of much judicial debate. The trouble seems to be that it was evolved to fit a situation in which the individual was relatively free, whereas now most persons are merely parts of a huge industrial machine. Insistence upon the right of individual contract on the part of labor and of employers, when only collective contracting is adequate for protection, may result in destroying freedom.

#### PRODUCTION FOR PROFIT

Under the institutions of private property and competition, and the doctrine of freedom of contract, the controlling motive of business is the making of profits. The need for goods may be great, but unless profits can be made production diminishes or ceases altogether. Even in so-called prosperous times the productive facilities of industrial nations are not used to full capacity. Limitation of output is commonly practised, and it is not an invention of the labor unions. When gluts in certain markets threaten a serious decline in prices, commodities are frequently destroyed or kept off the market in various ways. It is often more profitable to sell a small quantity at high prices than to sell a large quantity at low prices. The systematic destruction of coffee in Brazil during 1932 is a conspicuous illustration of this fact.

Very few workers have any considerable source of livelihood other than their regular jobs in factories, on farms, in offices and in stores. As production declines more and more of them are thrown out of work. Unless they have some savings, they are in a very short time without food, clothes, and shelter. Thus, for millions of people production

<sup>1</sup> *Outlines of Economics*, 5th ed. rev. New York, Macmillan Company, 1930, p. 12.



for profit *versus* production for use is a very live issue. This is true in every industrial nation, and insecurity of livelihood underlies many of the expressions of discontent which take the form of radical organization and political action.

The power of the profit motive is illustrated by the persistence of the illicit liquor traffic. The resources of the federal government have been taxed to the utmost to bring under control an outlaw industry that persists because the possibility of larger profits by bootleggers than they could make in any other occupation, with a given investment, leads men to take incredible risks and to forfeit social approval by becoming rebels against government. Perhaps even more significant, however, is the fact that production for profit should be so generally taken for granted that the community looks upon the closing of great factories when the price of the product "goes off" as the natural and normal result of the change in the market.

It has already been pointed out that even under our profit régime, production often goes on when profits are not realized. This is because employers like to keep their organizations intact. Continued operation at a loss may be maintained for a time for humanitarian reasons or because it is the only alternative to sustaining greater losses. One of the most serious charges ever brought against the system of production for profit is the fact that it has not made possible a continuous flow of goods to market with a dependable return to all parties in industry.

### THE CORPORATION

The desire of business men to capture a larger proportion of the existing markets in order to obtain greater profits gave rise to the invention of a form of business enterprise which has had vast influence on the development of industrial nations, namely, the corporation. By associating under the corporate form of organization, business men acquired certain advantages over enterprises owned by individuals and over partnerships. The corporation has now become the dominant form of business organization.



The corporation can accumulate large amounts of capital, carry on large-scale production, and permit stockholders to enter or leave the enterprise as they please. Thus it acquires perpetual life. Securities may be divided into small units and into different classes in order to attract all types of investors. The issue of joint stock enables many people to participate in an enterprise as stockholders who know little about the business and care less so long as they get their dividends. The corporation also makes it possible for the wealthy to participate in many enterprises, accumulate vast fortunes, and acquire control of large parts of the economic system. The stockholders have limited liability, that is, liability for no more than they have invested in stock. In contrast, individual enterprisers and partners not only are liable for amounts invested in a business but everything else they own may be attached to meet the debts of their businesses.

Industrial corporations carrying on large-scale production generally employ great numbers of people. Consequently the more there are employed in one enterprise the more disastrous the effects when the enterprise shuts down. To illustrate: one company owns 77 per cent of the telephones in the country; one group of companies controls about 50 per cent of the traffic in petroleum and its products; one company controls 40 per cent of the steel ingot capacity of the country; and four bread companies produce around 20 per cent of the bread consumed. The larger the corporation the greater the number of people who are dependent on the decisions of a few officials. This power can be extended when the corporation effects mergers and consolidations, which usually result in the displacement of workers and officials. Some of the recent mergers have resulted in the shut-down of plants and the dropping of many officials as well as hundreds, or thousands, of workers. By organizing a holding company, a corporation can acquire control of other companies through buying only 51 per cent of their stock. In many cases virtual control is maintained through the ownership of a much smaller percentage—as low as 20 or 25 per cent.

By chartering corporations, states and nations have fre-



quently set up organizations which have economic jurisdiction wider in extent than the political jurisdiction which created them. Corporations chartered by any state in the United States can do not only a nation-wide but an international business. Thus, from the standpoint of regulating corporation practices, the political jurisdiction is frequently helpless. The federal government does not charter corporations, and no political jurisdiction has been set up which can regulate international corporations, such as cartels and mergers.

Except for policies voted on in stockholders' meetings, the board of directors of a corporation is supreme. As a rule not many stockholders attend meetings, but they send their proxies (voting rights) to the officers of the corporation. In this manner real control rests with a few insiders. Directors are frequently elected who are mere "dummies" for important stockholders or business concerns that have acquired a certain amount of stock for purposes of control. Interlocking directorates (in which the same people serve as directors in different companies) not only permit limitation of competition between the concerns represented but serve to encourage the creation of extensive economic interests and enterprises by banks and large corporations.

It must not be inferred from what has been said that the corporation is in itself an evil. Modern business could hardly be carried on solely by individual owners. Such vast aggregations of capital are involved that without the corporation method of organization there would have to be many times the present number of multimillionaires and a few billionaires. The point is that when individuals are displaced by aggregations of individuals functioning through agents and lacking in personal consciousness, the problem of control in the public interest is made more difficult. Men who entertain high ideals of personal conduct may act quite inconsistently with them in directors' rooms, far from the realities which their action affects. Professor E. A. Ross has coined the phrase "sinning by syndicate" to describe such performances.

The laxity of the corporation laws in the United States permits many practices which are neither honest nor condu-



cive to the welfare of the great majority of the stockholders. For example, few of the states have enacted laws establishing safeguards against unsound and fraudulent practices in organizing a corporation. Capitalization in some cases does not represent actual investment, because the organizers are not required by law to disclose the profits of bankers and promoters or the real value of the properties assembled. The watering of stock, the appointment of dummy directors, and the making of money at the expense of the corporation and of the stockholders are common practices.<sup>2</sup> Professor A. S. Dewing, in a study of 18 large companies, found that their tangible assets averaged 40 per cent of the total securities issued, and 60 per cent of the latter was distributed among the promoters, the bankers, the manufacturers "who received a price for their plants in excess of their value," and the attorneys who did the work of incorporating.<sup>3</sup> Moreover, the practices of one corporation may have detrimental effects on many others.

### THE BANKING SYSTEM

Banking is a form of business which affects every other form. Investment banks mobilize funds and direct them into long-time investment securities. Through well-organized selling efforts they are able to reach a large number of investors. Savings banks encourage thrift by gathering small savings and investing them in high-grade securities within the limits fixed by state and federal law.

As we have observed before, banks do business mostly through the use of other people's money. Commercial banks are able to sell credit (make loans) based on the depositors' money because only a small percentage of the depositors ask for cash over considerable periods of time. Depositors in commercial banks receive no interest on their money except where the banks are willing to pay a small rate on balances continuously maintained. Money and credit, that is, purchas-

<sup>2</sup> Stockder, A. H., *Business Ownership Organization*, New York, Henry Holt and Company, 1922, pp. 408-431.

<sup>3</sup> *Corporate Promotions and Reorganizations*, Cambridge, Mass., Harvard University Press, 1914, pp. 540-541.



ing power, are the life blood of the economic system. No business activity can be undertaken without money or credit. Hence the lending of money and the sale of credit put the banks in a position to dictate very largely to other forms of business. Unsound banking practices complicate the functioning of the whole economic system. They may cause panics and business depressions.

In connection with the formation of mergers, consolidations, and holding companies, the banks, which were at first regarded by promoters merely as convenient agencies for "floating" securities, frequently have come to be dominating factors in industrial enterprises. As a condition of forming a syndicate of banks to furnish money and float securities, leading banking concerns frequently have demanded excessive fees in cash or stocks. The clients of banks that have bought greatly watered stock (stock not represented by actual investment) find themselves holding badly depreciated securities.

The banking business in general is quasi-public in nature. Many of the functions of banking are made possible only by a partial monopoly of credit resources, although all banks compete more or less to increase the volume of their sale of credit. One of the greatest problems of modern industrial society is to decide what competitive practices each bank shall be allowed to engage in, in order to secure business, what services banks in general shall be required to render to all other forms of business, and what regulations shall be established to prevent bank failures and the disorganization of the economic system. Even more important is the problem of deciding how much dictatorial power the banking system, as a private business, shall be allowed to exercise over other forms of business.

#### ADVERTISING, HIGH PRESSURE SALESMANSHIP, AND INSTALLMENT BUYING

The development of an excessive amount of productive equipment has greatly accentuated the competitive race for markets. Disproportionate amounts are spent for advertising as a means of forcing on the attention of the public particu-



lar brands of commodities. Well-advertised goods are frequently more in demand than goods of better quality. In other words, advertising is used primarily to make profits for those who already have vast sums to expend in this way, rather than to cultivate new needs as part of a well-rounded life and to educate the public regarding the best products available.

Advertising is supplemented by high pressure salesmanship. These measures may induce consumers to spend disproportionate amounts on certain commodities to the neglect of others. Luxuries may absorb too much of the income of relatively poor people. For example, many Americans certainly indulged in excessive expenditure on automobiles during the last 25 years. The prices paid enabled many unneeded motor companies to make very large profits, and many purchasers probably denied themselves proper food, clothing, and housing in order to have cars. People who could not afford to pay cash were induced to mortgage future income and to buy on the instalment plan. Many became so deeply involved that they had difficulty in meeting the instalment payments.

The combined effect of unregulated practices in advertising, high pressure salesmanship, and instalment buying was to throw many industries out of balance. This played a large part in bringing about the economic crisis—another name for deflation and forced liquidation.

#### GOVERNMENT REGULATION

Attempts by corporations and trade associations, composed of representatives of business concerns, to limit competition and exact monopoly prices have compelled governments in every industrial nation to regulate business in one way or another. It is possible to introduce all sorts of regulations of business practices as a condition of granting corporation charters and franchises. Some industries, such as utilities and railroads, are so monopolistic in their nature that, as a condition of granting a monopoly privilege, state legislatures have established elaborate systems of regulation, by means of commissions, with reference to investments, services, and



rates. It has also been found necessary to apply a certain amount of regulation to businesses which are not inherently monopolistic. For example, in the United States the Federal Trade Commission has been given the power, subject to court review, to prohibit unfair competitive practices, the main purpose of which usually is to eliminate competitors from the market.

One of the principal economic and political issues in the United States today is the question whether regulation can be made adequate to obviate the necessity of government ownership of industries that may be classed as public utilities. The regulation of unfair competitive practices which, if not checked, lead to monopoly is probably in its infancy. At present efforts are widespread to modify the federal and state anti-trust acts and to permit business concerns to consolidate in the interest of efficiency and planning. Many of the sponsors of this movement, however, give little or no indication that they are willing to submit to any regulation to protect the public against monopoly prices and practices, which would lead to further concentration of control.

#### SOCIAL LEGISLATION

This brief survey would be inadequate without reference to the very considerable degree of social control that has already been provided for through legislation. The modern industrial system had hardly got under way before society found it necessary to regulate by legislation working hours and working conditions, particularly of women and children, in order to prevent their exploitation. The need to protect coming generations from the aggression of profit-motivated industry received definite recognition in laws designed to promote safety and sanitation and to provide children with educational opportunities. A system of factory inspection was established. After long struggles, laws have been passed by the states regulating, and in part prohibiting, the employment of children. Compulsory education laws have also been enacted by the states. But the accomplishment of a hundred years or more along these lines leaves much to be desired.



On every hand further needed regulation is retarded by a concern for profit which lessens the interest in social welfare and inspires active lobbying against social legislation.

It has been necessary to improve by legal means the economic status of women workers. The great health hazard to which they are subject and their relatively helpless position as individual bargainers have occasioned legislation limiting their hours of work and, to some extent, establishing minimum wages.

In a limited way, as will be seen later, legal support has been given to labor in its effort to establish strong organizations for collective bargaining, and to improve wages, hours, and working conditions. Workmen's compensation laws have been enacted in most states to provide a definite scale of payments to victims of industrial accidents. Widows' pensions enable poor mothers to maintain homes and to care for their children instead of placing them in institutions. Pensions for aged men and women who have not fared well in the industrial system have been inaugurated in sixteen states as a recognition by society of its obligation to provide security for those least able to help themselves.

More will be said in Chapter XII concerning social legislation. Looked at as a whole, our economic life has many characteristics which, admittedly, must be modified in the interest of social welfare. It remains to be seen how much can be accomplished in this direction without fundamental changes in the economic system.



## CHAPTER III

### THE DISTRIBUTION OF WEALTH AND INCOME

A FUNDAMENTAL factor in the economic life of a modern nation is the way wealth and income are divided among various classes of the population. The ownership of the vast amount of wealth that has been produced by industrial nations is highly concentrated. For example, before the World War, it was estimated by competent authority that in the United States two per cent of the population owned 60 per cent of the wealth, 33 per cent owned 35 per cent, and 65 per cent owned 5 per cent. In older countries, such as France and Great Britain, it was estimated that still greater concentration of ownership existed. Many developments, during the World War and since, indicate that concentration of ownership has been increased. A study of 43,512 probated estates and of 141,446 estates not probated from 1912 to 1923, made by the Federal Trade Commission, showed that 1 per cent of the decedents owned 59 per cent of the wealth involved and 13 per cent owned 90 per cent.<sup>1</sup>

There were approximately 108,000,000 people in the United States in 1921. Data gathered in that year concerning 40,-908,324 property owners indicated that wealth was distributed as shown in the following table:<sup>2</sup>

<i>Classes of Owners</i>	<i>Per Cent of Persons</i>	<i>Per Cent of Wealth</i>
\$0 to \$2,000 .....	12.93	1.27
\$2,000 to \$3,000 .....	29.67	6.50
\$3,000 to \$20,000 .....	51.90	37.73
\$20,000 to \$50,000 .....	3.96	17.25
\$50,000 and over .....	1.54	37.25
Total .....	100.00	100.00

<sup>1</sup> Federal Trade Commission, *National Wealth and Income*, 1926, 69th Congress, 1st Session. Sen. Doc. 126, p. 3.

<sup>2</sup> King, W. I., "Wealth Distribution, 1921," *Journal of the American Statistical Association*, June, 1927, p. 152.



These figures show less concentration of ownership among the richer classes than most other bodies of data on this subject, but if the entire population had been included doubtless the percentage of ownership by these classes would have been seen to be higher because those excluded were probably either propertyless or possessed of only a small amount. Nevertheless, these figures indicate that the richest 1.54 per cent owned nearly as much as the 51.9 per cent, who owned from \$3,000 to \$20,000 each; and that 3.96 per cent owned over twice as much (17.25 per cent) as the poorer 42.6 per cent, who owned 7.77 per cent. Between 1921 and 1929 the richer groups had abundant opportunity to increase their holdings.

Under the institution of private property concentration of ownership means a high degree of control by a few over the economic activities and lives of the masses. For example, millions of the masses may be denied the opportunity to work and to provide a living for themselves and their families unless those who own wealth find that they can use the services of the workers profitably. The corporation (as the dominant form of business enterprise), interlocking directorates, and control of money and credit by the banking system are the means through which control is concentrated and extended.

Obviously, the few who own a major portion of the wealth of a nation get the major portion of the national income. The income of property owners is derived from rent, interest, and profits; but large owners are also in a position to accumulate vast sums by speculation. They have surplus income with which to acquire property during depressions, when it is very cheap. When the period of prosperity is nearing an end they can sell at high prices and wait for another opportunity to buy at a low figure. Vast fortunes have been accumulated by this means as well as by income derived from rent, interest, and profits in the conduct of various forms of business. It can hardly be said to-day that great fortunes are the reward of thrift and saving; they are largely the result of lucky investment. If the value of securities rises even to



half the average figure of 1929, before the great crash, the result will be, once more, the accumulation of vast fortunes by persons who have been buying securities during the depression.

Many of the high-salaried positions provide incomes equal to or exceeding the incomes of those who have accumulated large amounts of wealth. Those who are competent to manage vast enterprises not only are sought after as executives at large salaries but are allowed a certain percentage of the income of the business as a bonus. They are thus in a position to join the ranks of the wealthy.

Of the total estimated national income in 1928—\$89,419,-000,000—42.8 per cent went to property owners, 36 per cent to wage earners, 19.9 per cent to salaried workers, and 1.19 per cent was accounted for by pensions, compensations, and the like.<sup>3</sup>

These percentages represent the distribution of income chiefly on a functional basis. They give no indication of distribution among persons classed according to the size of their incomes. For this purpose the income tax statistics furnish the best sample available, as indicated by the following table:<sup>4</sup>

<i>Net Income classes</i>	<i>Per Cent of Persons</i>	<i>Per Cent of Income</i>
Under \$2,000 (estimated) .....	25.45	6.35
\$2,000 under \$5,000 (estimated) ....	49.04	26.34
\$5,000 under \$10,000 .....	16.27	18.07
\$10,000 under \$25,000 .....	6.71	16.23
\$25,000 under \$50,000 .....	1.57	8.77
\$50,000 under \$100,000 .....	.60	6.64
\$100,000 under \$150,000 .....	.16	3.11
\$150,000 under \$300,000 .....	.13	4.38
\$300,000 under \$500,000 .....	.04	2.53
\$500,000 under \$1,000,000 .....	.02	2.70
\$1,000,000 and over .....	.01	4.88
Total .....	100.00	100.00

<sup>3</sup> King, W. I., *The National Income and Its Purchasing Power*, New York, National Bureau of Economic Research, 1930, p. 80.

<sup>4</sup> United States Treasury Department, *Statistics of Income for 1929*, p. 5.



Perhaps the most striking thing about this table is the wide range in the distribution of income among those who may be classed as rich. For example, the richest .01 per cent have more income than the .13 per cent of persons with incomes ranging from \$150,000 to \$300,000 and the .96 per cent of persons with incomes over \$50,000 have 24.24 per cent, or nearly as much as the 8.28 per cent of persons who have incomes ranging from \$10,000 to \$50,000.

The income tax data indicate that relatively small percentages of large incomes are taken from their recipients as taxes by the government. The amounts they have left after paying taxes not only enable them to maintain or raise their standard of living but to increase their income by investment of their surpluses. The numbers of those in the United States who had large incomes rapidly increased between 1922 and 1929. The following table showing the numbers of those in the various income classes and the percentage increase between 1922 and 1929 gives an idea of the rapidity with which wealth and income became concentrated in the hands of a comparatively small part of the population.

<i>Income Classes</i> (in thousands of dollars)	<i>Numbers in Each Class</i>		<i>Per Cent Increase</i>
	1922	1929	
5 under 10 .....	391,373	658,039	68.14
10 under 25 .....	151,329	271,454	79.38
25 under 50 .....	35,478	63,689	79.52
50 under 100 .....	12,000	24,073	100.61
100 under 150 .....	2,171	6,376	193.74
150 under 300 .....	1,323	5,310	301.36
300 under 500 .....	309	1,641	431.07
500 under 1,000 .....	161	976	506.21
1,000 and over .....	67	513	665.67
Total .....	594,211	1,032,071	73.86

From one standpoint it may be said that the table indicates a spread of more income among greater numbers—from a total of 594,211 persons to 1,032,071, or 73 per cent. But the increase in the percentages of growth, from 68 per cent for those having from \$5,000 to \$10,000 to 665 per cent for those having \$1,000,000 and over, shows how much more



rapidly wealth and income accumulate among those having the larger incomes. Furthermore between 1922 and 1929 the total net income reported by all classes increased from \$21,336,212,530 to \$24,800,735,564 or only 16 per cent, while the income of those having \$5,000 per year and over increased from \$7,804,021,948 to \$16,695,894,527 or 126 per cent. The fact that the *number* of those having \$5,000 per year and over increased only 73 per cent while their *income* increased 126 per cent shows why so much concern is being expressed to-day over the unequal distribution of purchasing power.

In 1929 there were 513 persons who received an income of \$1,000,000 and over, and 38 who received \$5,000,000 and over. A few decades ago a person who had accumulated \$1,000,000 was almost unique. This sum securely invested at five per cent would yield \$50,000 a year. In 1928 there were 43,184 persons who reported an income of \$50,000 or more and their total income was \$7,121,466,863, or an amount equal to 22 per cent of the total wages (\$32,235,000,000) paid to 27,298,000 employees in all industries.<sup>5</sup> Even in 1929 there were 38,889 persons who reported incomes of \$50,000 and over and their total income was \$7,049,512,250.

The question is frequently asked whether there is now a large enough amount of wealth produced annually in the nation to make it possible to abolish poverty. No definite answer is possible, because any plan of redistribution of income involves certain assumptions as to living standards and certain ideas about what is "fair" and socially wholesome. However, it is in order to look at the statistical facts in this connection.

In 1928, the latest year for which full and reliable data are available, the per capita income was \$749. In other words, that amount was available for every man, woman, and child. After deducting \$77.39—the per capita cost of federal, state, and local taxes combined<sup>6</sup>—the net per capita income was

<sup>5</sup> Total wages of the 27,298,000 employees as reported in King, W. L., *The National Income and Its Purchasing Power*, *op. cit.*

<sup>6</sup> National Industrial Conference Board, *Cost of Government in the United States, 1927-1928*, p. 64.



\$671.61. Since individuals apparently save on an average not more than 15 per cent of their incomes,<sup>7</sup> savings may be considered as reducing the average income available for expenditure to \$570.87. Obviously, even a communal distribution of income on a per capita basis would, without greatly increased production, mean a living standard far below what most readers of this book would think acceptable. It would be a great mistake, therefore, to infer from current discussions of the need of a more equitable distribution of purchasing power that existing production is adequate. The national income should be much larger than it is and will undoubtedly be much larger, especially when the potential demand for cultural goods is developed through education. Our economic system must meet more exacting tests of its capacity to produce as well as of its capacity to effect a more wholesome distribution of income. In this connection our experience in the World War is illuminating. By using the national plant to capacity we drove the production rate considerably beyond the peace-time level.

At the same time, the process of redistributing purchasing power need not wait for the increase in general production. Undoubtedly much could be done toward abolishing poverty if a national minimum family income could be established to relieve the strain borne by the lowest income groups. For example, in 1928 there were 43,184 persons in the United States who had an income of \$50,000 or more after deductions for contributions, losses on the sale of real estate, stocks and bonds, and other items allowed as deductions in income tax returns. After paying income taxes amounting to \$908,630,615 this group had left \$5,400,454,385. It puts no strain on the imagination to assume that this favored group could without hardship or disaster to their legitimate enterprises have suffered a transfer of enough of their income to bring a large portion of the lowest paid workers above the poverty line.

Few persons realize how low American incomes are. Even

<sup>7</sup> Spahr, Walter E., Editor, *Economic Principles and Problems*, New York, Ray Long & Richard R. Smith, Inc., 1932, chapter by W. I. King, Vol. II, p. 165.



in a prosperous year the average yearly earnings in wages and the average yearly salary are small. For the year 1927, these have been estimated at \$1,205 and \$2,084, respectively.<sup>8</sup> This manifestly does not permit those whose incomes are near or below the average to enjoy a very high standard of living. And during the depression of 1929-1932 wages and salaries were reduced not only by unemployment and part-time employment but by heavy wage and salary cuts. For example, a recent investigation by the National Industrial Conference Board of 1,718 concerns having 3,258,666 employees in 1929, showed that in April, 1932, employment had declined to 2,391,009—26.6 per cent. Of these concerns, 80.5 per cent had reduced executive salaries by an average of 20.3 per cent; 81 per cent had reduced other salaries by an average of 15.9 per cent; and 75.4 per cent had reduced wages by an average of 13.9 per cent. In general, it may be said that 4 out of 5 of the concerns had reduced salaries and 3 out of 4 had reduced wages. The proportion of the concerns that had reduced wages varied from as high as 100 per cent in some industries to as low as 21.4 per cent in the industry having the lowest percentage.<sup>9</sup>

The cost of living index of the U. S. Bureau of Labor Statistics declined 14.8 per cent between December, 1929, and December, 1931. The index of the National Industrial Conference Board indicates a decline of 5.1 per cent between December, 1931, and April, 1932. However, for many the decline in the cost of living has not compensated for their cuts in salaries and wages, if one takes into account the loss of earnings due to unemployment and part-time work. Those whose earnings were normally small have been subjected to a degree of sacrifice the full extent of which will not be known for several years.

The rate at which further accumulation of wealth is going on among people who have vast surpluses above their taxes and expenditures for necessities and luxuries staggers the

<sup>8</sup> King, W. I., *The National Income and Its Purchasing Power*, *op. cit.*, p. 87.

<sup>9</sup> *The Service Letter*, National Industrial Conference Board, May 30, 1932.



imagination. For example, a person having \$5,000,000 in net income can spend \$1,000 an hour 10 hours a day 365 days in the year and have \$1,350,000 left. The average income in 1929 of those having \$5,000,000 and over, after paying income taxes, was \$8,071,021. The impossibility in many cases of spending such surpluses on consumers' goods means further investment and increased concentration of ownership and control of the economic system. Thus far the only means which society has devised to attack this problem are the income and the inheritance taxes. Obviously the moderate use of these taxes has made but little change in the proportionate distribution.

But all this may seem to some readers little more than an exercise in arithmetic. Quite obviously, the mere fact that there was or was not in a normal year of business activity enough wealth produced to realize some social objective in improved living standards does not settle the question of policy as to how the national income should be divided. Nor does the fact that the present division of wealth and income presents enormous contrasts of riches and poverty prove that a radically different division should be effected. The figures are relevant and they furnish the groundwork for economic thinking and planning; but various factors in the situation have to be taken into account in deciding what changes in national policy should be made.

From a practical point of view, the problem is one of finding the most effective way of administering the national surplus. The traditional view is that it is best administered by a relatively small part of the population. It is argued that those who have a relatively high degree of training and of culture carry such responsibility better than the mass of people. It is pointed out that the possession of a fortune may have a disciplinary effect on an individual or a family and that money in such hands may serve the community better than the same money very widely distributed. But over against this must be set the fact that great wealth has not generally been accompanied by a high sense of social responsibility or by a spirit of service in any sense acceptable from



a social point of view. Undoubtedly wealth furnishes patronage of culture: much of our cultural inheritance has been made possible by very rich families. Yet what about the enormous wastes in luxury and mere display? On the other hand, the question arises whether a wider distribution of income would result in as adequate giving to educational, religious, and social work (for some social work would still be needed) as is now realized through giving by the wealthy, inadequate as it is. These questions are by no means simple. They merit thoughtful discussion.

The most essential point of all for our purposes in this study is the fact, which appears again and again in these pages, that the ethical concern for a more democratic distribution of wealth and income is now supported by an economic discovery, namely, that vast incomes for a few tend to pile up capital so fast that the mass of the population, with their small incomes cannot buy the goods produced. Hence saving for investment defeats its own ends. What religion and ethics have claimed as a matter of right and of humanity, economics is now demanding as a means of keeping the wheels of industry turning. Thus economics and ethics join hands. It seems safe to say that, if our individualistic system of ownership and control of property is to continue, those who hold economic privilege must adopt a new attitude of intelligent social concern based on a long view of their own and their neighbors' interests. Such an attitude would be practical and realistic in that it would recognize the ultimate necessity for social stability if there is to be individual security; it would also be ethical in that the "long view" requires sacrificing present satisfaction of individual wants for the permanent good of society. Up to the present time there is no adequate answer to those who contend that privileged classes do not surrender their privileges until they are taken from them. It remains to be demonstrated whether social conscience and social intelligence can together bring about our economic salvation.



## CHAPTER IV

### THE INDUSTRIAL WORKER TO-DAY

THE wage earners are the largest group in industrial society. Their average income is less than that of any other industrial group. As a result, they are in greater need than others. Unless the economic system provides them with a greater amount of necessities and comfort than at present, they have every reason to complain about its functioning. There are, of course, classes of wage earners to whom this does not apply in prosperous times; but these are only a fraction of the total.

Although the present economic system provides more for the masses than any other ever devised, their income is very unequally distributed, even among the wage earners themselves. The amount which each will receive during any year is very uncertain. It is dependent upon the relative opportunity to work as well as upon the rate of wages paid.

The transition from the handicraft system of manufacture to the factory system greatly changed the status of wage earners. As previously indicated, under the handicraft system, master craftsmen commonly owned their workshops, tools, and homes, and the land from which to obtain a food supply. A worker received what was determined to be a "just price" for his labor and for the commodities he produced. This price was enough to maintain his status as a worker. When he did not have work at his craft he could do something to assure himself and his family a food supply and nobody could evict him from his home. This does not mean that he was assured of what would be considered to-day, a good living, but he had *status*.

In contrast, the factory system crowded the workers in towns and cities, so that ownership became less prevalent.



The employer owned the factory and tools of production and provided work only when he had a market. He sought to keep wages low and hours long in order to reduce the cost of production, to lower prices, and to gain a market and make profits. In many cases he dispensed with skilled men workers and hired women and children to tend his machines. The more severe competition became the more employers exploited their workers in order to gain competitive advantage. They insisted on bargaining individually with their employees. By pitting necessitous workers one against another the employer was able to decrease wages. The employers who were least generous in such bargaining set the pace in the race for markets. The surpluses obtained by exploiting the workers and the credit obtained from the banks were used to expand productive equipment. When the factory system got well under way, unemployment became a common characteristic of over-expanded industries. The business cycle of prosperity and depression appeared. During depressions unemployment became more widespread and assumed the aspect of a serious industrial and social problem.

Under such circumstances it is easy to appreciate the meaning of the expression "once a wage worker always a wage worker." Opportunities to become employers became fewer even for the more capable and enterprising of the wage workers. Wealth and power became more and more concentrated in the hands of employers. Economic insecurity for the wage workers became general. They could be discharged at the will of the employer and laid off when their services were not needed. The opportunity to make profits became the sole basis for the hiring of labor and the fixing of wages and hours. The fact that serious social problems arose out of such an industrial régime received little or no consideration. These developments have taken place wherever the capitalist system of industrial organization has been in operation.

#### THE STRUGGLE FOR COLLECTIVE BARGAINING

Many workers, however, have refused to accept the situation without protest. In every modern industrial nation the



workers have sought to organize and to compel their employers to bargain with them collectively. Always the underlying purpose has been to establish basic wage rates, hours, and working conditions which would thwart the efforts of employers who cut wages in order to gain competitive advantage. The workers have maintained, and many progressive employers have agreed, that basic wages, when established throughout an industry, would greatly limit cutthroat competition. Employers would then be compelled to put the emphasis upon efficiency in management in their efforts to reduce costs and obtain a larger share of the market.

At first the workers organized local unions for collective bargaining. But markets came to be district, national, and international in scope; and competition for these markets compelled wider organization. The workers discovered that competition could be controlled only if labor unions and associations of employers bargained on a large scale. Employers who were willing to bargain collectively were compelled to meet the competition of those who refused to do so. This led the unions to try to extend their membership more widely. For, if an employer refused to negotiate with his employees collectively, they had to accept whatever conditions he imposed, unless by striking and using collective pressure to disorganize his business they could compel him to join with other employers in dealing with the union. Such pressure, obviously, is effective only when used on a large scale.

This is the basis of the industrial warfare characteristic of every industrial nation. It arises because the workers demand a larger share of the wealth produced and better conditions of work and of living. Many employers refuse to accede to this demand, and those employers who are willing to share more with their employees are handicapped by those who refuse. To-day probably more than 80 per cent of the wage workers of the United States are unorganized.

#### THE LEGAL STATUS OF ORGANIZED LABOR

Thus far modern industrial nations have done very little to improve the bargaining power of the workers. The failure



on the part of governments to act on their behalf is in contrast to the political policy that obtained in the days of the handicraft system, when local and national governments conceived it to be one of their chief duties to regulate competition, quality of goods, and prices. The Church in those days participated in this undertaking by giving its sanction to the principle of the "just price." However, with the breakdown of the handicraft system and the growth of the factory system, governments not only encouraged employers to compete but assumed that by allowing them to seek their self-interest they would best serve society. This policy was carried to an extreme in England, in France, and in some other countries by prohibiting wage workers from combining. Unions were regarded as conspiracies in restraint of trade. Not until 1875 did unions in England attain a status of free association which permitted them to pursue activities, in connection with their effort to improve their industrial status, which would be lawful if done by an individual.

In the United States, likewise, unions were at first regarded as conspiracies in restraint of trade. The courts, however, early set up the distinction between unions, as such, and specific activities which the courts held to be conspiracies in restraint of trade. This distinction avoided the necessity of dissolving unions as conspiracies. But many of the courts, when regulating union activities, have declared that even activities lawful in themselves are unlawful if they are done in combination—in other words, that they constitute conspiracy. This category has at times been made to include such activities as making speeches, conducting publicity, holding meetings, and even peaceful picketing and persuasion, all of which may be essential to success in winning strikes.

In England the unions have been freed entirely from the restrictions of the conspiracy doctrine. In the United States several states in the late sixties and seventies of the last century expressly legalized combinations of workers to raise wages and reduce hours. In 1914 Congress passed the Clayton Act, which provided that, under federal law, unions should not be construed as illegal combinations (conspiracies)



in restraint of trade. It included many guarantees so important that organized labor regarded this law as labor's *Magna Charta* and *Bill of Rights*. However, various decisions since 1914 indicate that the rights of employers were not changed materially by the Clayton Act. Furthermore, the law furnished no relief from abuses by state courts in granting injunctions against labor union activities.

Since 1884, injunctions have been issued in labor disputes with increasing frequency. The injunction has been "the legal remedy most commonly sought by employers when menaced by strikes and boycotts."<sup>1</sup> The courts decided that the right to do business is a property right. While protecting this right of employers the courts have denied the workers rights which the workers considered guaranteed to them by the Constitution. For example, a local court in Pennsylvania forbade strikers to congregate on a church lot and to sing songs while strike-breakers were going to work.<sup>2</sup> The court maintained that this would hinder the employer in operating his mines. The union was also prohibited from distributing funds to supply the strikers with food, clothes, and shelter.

The United States Circuit Court of Appeals for the Fourth Circuit held in 1927 that interference with production necessarily interferes with interstate commerce and that a conspiracy exists where there is an "intent to restrain interstate trade." Where the effect is to restrain, "the intent is presumed."<sup>3</sup> No weight was given to the fact that the union was only exercising its recognized right to maintain or improve its scale of wages and working conditions through the extension of collective bargaining. On October 17, 1927, the United States Supreme Court refused to review this decision. Thus in this case, as in others, the highest court in the nation sanctioned the doctrine that the right to do busi-

<sup>1</sup> Commons, J. R. and Andrews, J. B., *Principles of Labor Legislation*, rev. ed. New York. Harper and Brothers, 1927, p. 103.

<sup>2</sup> Injunction by the Court of Common Pleas of Indiana County, Pennsylvania, November 8, 1927.

<sup>3</sup> *Red Jacket Consolidated Coal and Coke Co. v. John L. Lewis, et al.*, 18 Fed. (2) 839 (April 18, 1927).



ness takes priority over the workers' right collectively to refuse to work in order to improve their wages and working conditions.\*

Furthermore, statutes which prohibit employers from discharging workers merely because they are members of a union have been declared unconstitutional.<sup>5</sup> Statutes which forbid employers to require their employees not to join a union have also been declared unconstitutional.<sup>6</sup> These decisions have guaranteed the lawfulness of the employers' closed shop—closed against all union workers.

Many employers have compelled their employees, as a condition of obtaining employment, to sign agreements that they would not join a union while working for these employers. The workers call these agreements "yellow dog" contracts. The United States Supreme Court declared that such agreements are legitimate contracts and in consequence union organizers have been restrained from inducing those who had signed them to join a union.<sup>7</sup> If they disobeyed the injunction of a court they were held to be in contempt and might be punished by fine and imprisonment without trial by jury.

Congress recently passed a law forbidding the federal courts to enforce such contracts by means of injunction. Wisconsin has passed a law of similar import. It remains to be seen whether the courts will declare these statutes constitutional. A very considerable body of public opinion has been developed in opposition to this type of contract, and church organizations have played an important part in the movement against it.

Another grievance of labor lies in the fact that, although for wrongful acts of corporation officers the stockholders can be held only to the extent of their stock subscriptions, unions have no such safeguard. Not only are they held under the anti-trust laws for treble damages, which may exhaust their funds, but individual members who own property may be

\* *Bedford Cut Stone Co. v. Journeymen's Stone Cutter Association*, 274 U. S. 64 (1928).

<sup>5</sup> *Adair v. United States*, 208 U. S. 161 (1908).

<sup>6</sup> *Coppage v. Kansas*, 263 U. S. 1 (1915).

<sup>7</sup> *Hitchman Coal and Coke Co. v. Mitchell*, 245 U. S. 229 (1917).



held responsible without limit; even their homes have been taken.<sup>8</sup> Liability to this extent makes it possible to destroy unions completely. "It is often contended," say the foremost authorities on this subject, "that labor unions should be made financially responsible for unlawful conduct of their officers and agents. Beyond question such responsibility already exists. Whether the unlawful conduct is an illegal strike, a boycott, picketing, or violence, neither the union funds nor the accumulations of individual union members are safe from seizure."<sup>9</sup>

#### EXPERIMENTS IN COÖPERATIVE INDUSTRIAL RELATIONS

In view of the attitudes which employers have taken toward the efforts of workers to organize and bargain collectively, and in view of the legal handicaps to which the workers have been subjected, it is small wonder that more coöperative relationships have not been established. The conflict of interests over the distribution of the product of industry gives rise to a major problem not only within industry but for the community as a whole. It has been said that "with the exception of international war, there is no cause of disturbance to the welfare of nations so widespread and so destructive as industrial warfare."<sup>10</sup>

In spite of the difficulties, however, much has been done to establish coöperative relations. Granting that collective bargaining as ordinarily carried on leaves much to be desired, it has nevertheless done a great deal to improve the status of labor. In many industries recognition has been made of a right on the part of workers to organize and to deal with employers through their representatives. Gradually, acknowledgment of this right has come to be considered a matter of principle. The elaboration of specific rights in agreements concerning wage rates, hours, and working conditions estab-

<sup>8</sup> *Loewe v. Lawlor*, 208 U. S. 274 (1908); 235 U. S. 522 (1915); *United Mine Workers v. Coronado Coal Co.*, 229 U. S. 344 (1922); *Coronado Coal Co. v. United Mine Workers*, 268 U. S. 295 (1925).

<sup>9</sup> Commons and Andrews, *op. cit.*, p. 132.

<sup>10</sup> Newfang, Oscar, *Harmony Between Capital and Labor*. New York, G. P. Putnam's Sons, 1927, p. III.



lishes a collective contractual status. Rules are formulated to enforce these agreements which are reconsidered and revised from time to time.

The rules pertaining to wages and working conditions give to labor a degree of power that amounts to participation in management. When the workers have a voice in determining working conditions which affect their earnings and opportunity to work, a considerable advance in status has been made; when they assume joint responsibility for discipline, they assist the employer in dealing with one of his most important problems; when they participate in making changes and improvements they are contributing the knowledge and technique of "the man on the job," who frequently can give invaluable assistance even to the best of managers. But dealing with human beings in a way to bring out the best in them requires training in psychology and a willingness on the part of the employer to share with the workers the savings that come from efficiency and the elimination of waste.

Many employers who refuse to deal with unions have set up what are called employee representation plans. Some declare that they are willing to deal with representatives of their own employees but that they should not be asked to negotiate with paid officials of a union which has members in the plants of their competitors. Employers quite generally, of course, hire officials and experts to represent them in the negotiations with their employees. In only a few cases, however, do the employers having employee representation plans (which the unions have dubbed "company unions") permit the employees to hire and pay representatives who devote their entire time to their duties. Yet only representatives so maintained are likely to be as independent as paid officials of unions. Union labor fears that an employee who is in the pay of an employer and dependent on him for a job will be influenced by the employer's wishes.

Perhaps the most important issue involved here is the establishment of basic wage rates in competitive industries, for which the unions contend. Employers having employee representation plans who are unwilling to have basic wages, hours, and working conditions established in competing



plants, cannot convince unions that their plans are other than a subterfuge. Authorities on labor problems are disposed to support labor's side of this argument.

Although the workers in plants having employee representation plans labor under many handicaps in establishing effective collective bargaining, their status in many cases has been considerably improved over that of workers in plants where individual bargaining is in vogue. The fact that representatives are in a position to inform employers of the real grievances of their employees frequently results in improvements. This in itself is a substantial gain. Furthermore, some employers have been wise enough to use employee representation plans as a means of enlisting goodwill and coöperation. Where employees share equitably in the savings resulting from greater efficiency and have an effective voice in determining working conditions affecting earnings and the opportunity to work they acquire something of the status of co-partners. The result is frequently to improve the competitive position of the concern for which they work. However, it is doubtful if employee representation plans, limited as they are in scope, give much encouragement to the development of a labor movement devoted to the improvement of the status of workers in general in an industrial society.

Since 1923 some very significant developments have taken place which have established a new basis of coöperation between unions and the employers who deal with them. In a few companies the regular machinery for carrying on collective bargaining and adjusting disputes is still maintained, but chief emphasis is placed on coöperation in improving industrial technique. Special committees are set up, composed of representatives of the union and of the management, who devote their efforts to the elimination of waste and the increase of production. In this connection it has been discovered that the workers have very important contributions to make. For example, between 1923 and 1926 the employees in the shops of the Baltimore and Ohio Railroad made over 20,000 suggestions for improvements, the great majority of which were put into effect, with great savings to the railroad. The foremen, superintendents, and managers also are in a



position of greater freedom to effect improvements and they more readily gain the coöperation of the workers. Everybody understands that suggestions for improvements will receive serious consideration and that all parties concerned are going to benefit by them. Grievances have decreased because the aim is to eradicate the causes of grievance. The workers have had more stable employment and their working régime has been improved. Provision is made for better tools and equipment; and the proper arrangement of materials and care of tools enable the workers to do better work, to increase production, and to lower costs.

The plan has worked so well that it has been applied by several other railroads. Similar developments have taken place among business concerns in the printing, clothing, brick-making, coal, hosiery, and electrical industries. To find that through union-management coöperation wastes can be eliminated, that technical methods can be improved, that costs can be lowered, that employment can be stabilized, that earnings and wages can be increased, and that better service can be rendered to the public, is a discovery of vast importance.

#### THE RELATION OF PUBLIC POLICY TO INDUSTRIAL DISPUTES

Employers and employees in general, however, have not arrived at a point where they adjust their relations in the way above described. Resort is had to strikes and lockouts as the means of using economic power to support conflicting interests. Prolonged cessation of production inconveniences the public, which may feel little real concern for an equitable adjustment of the respective claims of the employers and employees in the dispute. Nevertheless, the devastating effects of industrial warfare are gradually coming to be recognized. Industrial warfare is coming to be considered as much a matter for public concern as warfare between nations. Although organized workers are the most aggressive in the use of strikes to compel consideration of their demands, many strikes are in the nature of a mass protest of unorganized workers, due to the fact that many employers have no means



of discovering the real sources of discontent among their employees until they strike.

If workers are unable to induce employers to enter into arrangements for the peaceable settlement of the terms of employment, the public through government representatives may consider the relative merits of the claims of the disputants and may seek to bring about an adjustment. The interdependence of all classes of society organized in accord with a thoroughgoing division of labor is such that the body politic can hardly afford to countenance maladministration in any part of the economic system.

Considering the relative importance of continuity of production and of equitable distribution of the product of industry, the surprising thing is that in an avowedly democratic political organization so little has been done to promote industrial peace and the welfare of industrial workers. One of the most significant steps in this direction taken by government is to be found in the railway industry. Under the Railway Labor Act (1926) a board of mediation has been set up, whose duty is to help disputants to come to terms. If the board fails to do this, it must try to induce them to arbitrate. If either party refuses to arbitrate, the President of the United States can appoint an emergency board to investigate the dispute. The parties must maintain a truce for 30 days while the board investigates and makes a report. Public opinion is then relied upon for pressure upon the party adjudged in the wrong. No provision is made, however, to bring the parties to terms after the board has reported.

This law was passed because the railways and the unions agreed upon its provisions and asked Congress to legislate. The fact that both parties agreed to abide by the new "rules of the game" offers the greatest promise for successful operation under these rules. As for those railway executives who refuse to deal with unions, the United States Supreme Court has ruled that they have no right to interfere with the selection by their employees of representatives.<sup>11</sup>

<sup>11</sup> Texas and New Orleans Railroad Co. v. Brotherhood of Railway Clerks, 74 L. ed. 607, May 26, 1930.



In connection with the creation of a federal Department of Labor in 1913, the Secretary was given the power to act as mediator and to appoint commissioners of conciliation. There is a steady demand for the services of these commissioners in adjusting disputes. A majority of the states have provided means for the adjustment of industrial disputes and many of them have permanent boards of conciliation and arbitration. Twenty-three states provide for the enforcement of an award when the parties have agreed to arbitration, and in seventeen states strikes and lockouts are prohibited during arbitration proceedings.<sup>12</sup>

It should be clear, then, that a major problem in American economic life is the development of means whereby employers and employees can work together coöperatively for their mutual welfare. If public policy does not result in improvements along these lines, it can hardly be expected that organized labor will be satisfied to pursue the conservative political tactics it has followed in the past. The dismal failure of experiments with political labor parties during the early part of the nineteenth century established a tradition that labor unions should shun direct political affiliations. The members of labor unions have supported candidates of the principal political parties who were friendly to the measures for which organized labor stood. This has been regarded as the only way to avoid the internal dissensions which disrupted earlier trade union movements. As a result, American organized labor has relied mainly upon industrial action rather than upon political action to attain its ends. Under present conditions, however, many labor leaders are advocating political action to establish universal minimum standards which will better their working and living conditions.

In the long run, it is probably safe to say that, in improving the status of the workers and in promoting coöperative relations in industry, public opinion is a major factor. In the making of opinion voluntary groups organized for study and action undoubtedly play an important part.

<sup>12</sup> Commons and Andrews, *op. cit.*, p. 148.



## CHAPTER V

### THE FARMER'S ECONOMIC PLIGHT

WHAT has been said of the prevailing characteristics of the economic order applies in large part to rural as well as to urban life. Agriculture as well as industry is subject to the influence of the business cycle, competition for markets, the inequities of the price system and the credit organization, the effects of prohibitive tariffs, and other forces that operate throughout the economic system. But the peculiarly difficult situation of agriculture and the consequent sharpening of rural-urban conflict make it important to look closely at the problems of the farmer and his family. A few human facts, thrown into bold relief, will tell the story.

"Tell me what to do about my 'surplus' boys and girls," a farm woman asked a secretary of the Y. W. C. A. recently. "I have four grown children; only one is regularly employed. They cannot go to the city for jobs as they once did. There is nothing here for them to do. Our income is not sufficient to keep a large family going."

"What grandmother could do I can do," is the slogan of many farm women during the present depression, according to a public address by the chairman of a County Home Bureau in Illinois. Hands that have been accustomed to bridge playing are now, of necessity, learning to make soap. This is in response to the need for making the farm home more self-sustaining because farmers cannot exchange their products in urban markets on a profitable basis.

"We must teach many farm people how to live without money," reports a professor in a theological seminary in the Middle West. This means growing more food, making clothes at home, and the development of local industries to meet the needs of the farming population.



A prominent agricultural extension worker, when asked what her program was, replied: "We are first finding out whether farm families have any money to purchase any clothing. Frequently there is none. Then, if Mary's sleeve must have a patch on the elbow, we teach her mother how to put it on artistically. We are establishing clothing exchanges in local communities so that unused clothing can be distributed to those who need it."

Three years ago a farmer in Ohio said: "My taxes are \$1,000 a year; my gross income, \$4,000. Because of my taxes, I cannot educate my children." At the present time that farmer's income is considerably lower; his taxes remain the same.

In rural America the depression has not brought a new situation as it did in industry: it merely intensified the already serious plight of the farmers. Yet this aggravation of the farmers' sufferings is all a part of the general indictment that the last three years have drawn against the economic order.

#### FARMERS SPEAK FOR THEMSELVES

A few months go, hearings for the presentation of farmers' grievances were held by the Department of Social Ethics of the Chicago Theological Seminary and by members of the faculty of Ashland College, Grant, Michigan, among farmers of three Michigan counties. The hearings were limited to agricultural indebtedness, including mortgages. It came out that in 1930, in the State of Michigan, 11,500,000 acres of farm land were delinquent in taxes, according to the records of the auditor general of that state. This was twice the number of acres reported delinquent in 1920 and three times the figure for 1910. The total tax delinquency in the state on farm land was about \$1,300,000 in 1910 and \$48,000,000 in 1931. In Newaygo County, Michigan, where some of the hearings were held, 3,777 tax titles, one-half of them farms, were offered for sale in 1931 because of delinquencies in taxes for 1928. This is in sharp contrast to 1910, when only 437 tax titles altogether were advertised for sale.

In 1926, 13 per cent of the taxes were uncollected; in 1931,



25 per cent were uncollected. The older farmers who testified at these hearings all stated that the depression of 1929-1932 was more severe than the one of 1893-1895, because the cost of machinery and other supplies which they are obliged to purchase is still relatively higher than it was in the nineties, while prices of the products they sell are very low.

#### WHY FARMERS ARE HEAVILY IN DEBT

The testimony of the farmers at the hearings in the three Michigan counties indicated various reasons why they are heavily in debt. Many debts were contracted in a period when farm prices were higher than in 1931-1932, which means that the indebtedness increased because of the greater value of the dollar. The customary method of helping farmers in many areas when they are in debt is to lend them more money. Some are in debt because of the hazards of nature—drought, frost, flood, insect pests. Some have had to borrow money in order to pay taxes, and local taxes for schools and roads continue to be very heavy.

Recent reports by the Department of Agriculture indicate a total farm mortgage debt in the United States on January 1, 1930, of \$9,241,000,000. In 1920 it was \$7,857,000,000. The price level of 1930 was considerably below that of 1920. The federal census reports show the proportion of farms operated by their owners which have not been mortgaged, to be as follows for the last six decades:

#### OWNED FARMS NOT MORTGAGED

<i>Year</i>	<i>Per Cent</i>
1890 .....	71.8
1900 .....	69.0
1910 .....	66.4
1920 .....	57.8
1925 .....	63.9
1930 .....	53.9

It is not known what the proportions are for farms operated by tenants, which are about 40 per cent of the total in the United States, or for farms operated by managers, which are relatively few. Sample studies indicate that between 1920 and 1930 the percentage for farms mortgaged increased in all sections of the country.



## MIGRATIONS FROM AND TO THE LAND

The close relationship between rural and urban life which now obtains may be illustrated by the movements of the population from and to the land. It is estimated by the Division of Farm Population and Rural Life of the Department of Agriculture that, between 1920 and 1930, 14,500,000 persons left the farms for towns and cities. It is also estimated that, during the same period, 8,500,000 persons left the towns and cities for farms. Taking into account the excess of births over deaths, it was found that the farm population in 1930 was 4,000,000 less than it was in 1920. Since 1930 the farm population has been increasing because the farm has once more become a refuge for the unemployed. Estimates for 1931-32 of the Division of Farm Population and Rural Life indicated the first net increase in the farm population within twenty years. The exodus from the farms to the cities has tended to aggravate urban unemployment; and it is evident that the stabilization of the farm population would have a favorable effect upon industrial conditions.

The farm population has a higher proportion of children and young persons under twenty-one years of age than the urban population. The machine is being increasingly applied to farming operations and there is technological unemployment in the farming areas as well as in the cities. Mechanization proceeds in country as well as in town. It therefore appears that the pressure of rural population upon urban, and of urban population upon rural, will be with us at least for some time.

## FARM INCOME AND TAXATION

During 1923, which was perhaps an average year for the post-war period, it was found that 3,000 representative farm families had available for family living, on the average, the equivalent of about \$1,500 a year. About \$900 of this amount was in the form of cash. The remaining \$600 was in the form of food and fuel furnished by the farm and in the form of house rent.

The effect of the business cycle and of fluctuating prices upon income may be illustrated by quoting recent figures on



the total cash income of the farming population. In 1931, the gross income of 6,000,000 farm families was estimated to be \$6,920,000,000. This figure was 26 per cent less than the gross returns for 1930 and 42 per cent less than those for 1929.

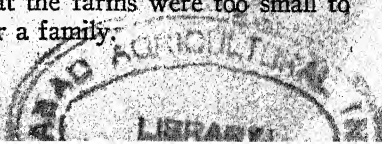
The studies of Dr. W. I. King and Professor H. C. Taylor indicate that people engaged in agriculture, who made up about one-fourth of the total population, had during the post-war period slightly less than 10 per cent of the money income of the American people. Dr. King's comprehensive studies of incomes down to the year 1928 indicated that farmers as a group had not shared in the gains in income made by the whole people during the years 1925-1928.

Prior to the war the farm population had 20 per cent of the total national income. At that time, to be sure, a larger proportion of the population was engaged in agriculture. However, the proportion of income received by the farm population has decreased more rapidly than the proportion of the population engaged in farming. Thus it is clear that in the economic development of the United States, the condition of agriculture has been becoming worse and worse.

Although the gross income of agriculture for the year 1931 was equivalent to what it was during the pre-war years, taxes on farm property are actually 250 per cent higher than they were for the period 1910-1913. This fact is sufficient to explain the agitation for tax reduction and for a shifting of tax burdens from farm property to other forms of wealth. Such agitation has been going on in the rural regions during the last three or four years.

#### STANDARDS OF LIVING AMONG FARMERS

Several years ago Dr. C. J. Galpin of the United States Department of Agriculture made the generalization that 40 per cent of the farm population have low incomes and low standards of living. The two main reasons for the status of this 40 per cent were (1) the fact that they were living on poor land—in many instances land which a plow should never touch; (2) the fact that the farms were too small to provide an adequate living for a family.





No comprehensive figures on expenditures per family during the depression years are available. However, those for 1923 covering 3,000 representative farm families studied by E. L. Kirkpatrick of the United States Department of Agriculture, were as follows:

	<i>Furnished by Farm</i>	<i>Purchased</i>	<i>Total</i>	<i>Proportion of Total</i>
Total .....	\$633.70	\$870.20	\$1,503.90	Per Cent
Food, including groceries...	395.30	223.90	619.20	41.2
Clothing .....		220.30	220.30	14.7
Rent (10 per cent value of the house) .....	187.00		187.00	12.4
Furnishings and equipment.		40.90	40.90	2.7
Operation expenses .....			209.20	13.9
a. Fuel .....	51.40	41.50		
b. Hired help in household		11.00		
c. Household supplies ...		10.20		
d. Laundry outside .....		4.30		
e. Automobile, including depreciation .....		74.10		
f. Horse and buggy .....		5.00		
g. Carfare .....		1.10		
h. Telephone .....		5.80		
i. Postage, express, and freight .....		2.10		
j. Insurance on furniture and equipment .....		1.10		
k. Ice .....		1.60		
Maintenance of health .....		59.10	59.10	3.9
Advancement .....			94.40	6.3
a. Formal education .....		30.90		
b. Reading matter .....		11.90		
c. Organization dues .....		3.50		
d. Church, Sunday school, and missions .....		25.60		
e. Red Cross and other welfare .....		.80		
f. Recreation .....		22.60		
Personal .....			36.00	2.4
a. Gifts .....		13.30		
b. Jewelry .....		1.20		
c. Toilet articles, etc. ....		8.40		
d. Candy, gum, sodas .....		3.90		
e. Tobacco, pipes, etc. ....		9.20		
Insurance (life and health)		35.30	35.30	2.3
Unclassified .....		2.50	2.50	.2



## EDUCATION AND SOCIAL SERVICES IN THE COUNTRY

By all recognized tests, public education in the farm areas is much less adequate than in the urban areas. Furthermore, a recent study by the National Education Association indicates that in the depression of 1929-1932 rural schools suffered more than city schools. Although in the cities budgets have been cut and school services have been reduced, in the country there were many more instances of early closing of schools, and of unpaid salaries of teachers. In one county in Tennessee no school was open during the year 1931-1932. Probably many such cases have gone unreported.

Eighty-five per cent of the rural population, including those on farms and in villages up to 2,500 population, do not have access to local library services. Two-thirds of the rural counties of the United States do not have any organized social work. Only one-fifth of the rural counties have a public health department with full-time personnel.

## FORCES AT WORK FOR IMPROVEMENT

Among the forces working for economic improvement, perhaps the most potent have been coöperative associations for buying and selling, and the agricultural extension services. The farm population is struggling to make a transition from individualistic to more coöperative ways of living. At the present time one-third of the farmers of the United States are members of at least one coöperative association. The membership of farm coöperatives steadily increased up to the year 1930. Since that time there has been only a slight decrease. As an example of a farmers' coöperative, the experience of the Land O'Lakes Association of Minnesota may be cited. This is a federation which markets the products of over 400 local creameries. The main product is butter, which is sold under the trade name of "Land O'Lakes." The federation of the local associations was organized about eight years ago. For thirty years prior to that time the local associations were being formed. The building of coöperatives that will endure is a long, slow process.



The United States Agricultural Extension Service is the largest adult educational organization in this country and perhaps in the world. Federal, state and county funds maintain over 6,000 full-time professional workers in state agricultural colleges and in the counties. About two-thirds of the counties have one or more local agents who work among farmers, farm women, and boys and girls. The county agents are not specialists but are carriers of expert information from the agricultural colleges and experiment stations to the farm. Their achievement in transmitting scientific information relating to farm production has been tremendous; in fact, it is said that the average farmer has absorbed scientific information related to production at a rate undreamed of by pioneers of agricultural education.

In 1929 the Federal Farm Board was established for the purpose of stabilizing agricultural marketing. It was given power to make loans and to give advice and assistance to coöperative marketing associations and to such stabilization or holding corporations as coöperatives may create. Its activities have been mainly in the wheat and cotton markets. The Farm Board made purchases of considerable amounts of wheat and cotton during the year 1930 and is holding these off the market. It plans to dispose of them in small amounts at such times as prices of agricultural commodities may turn for the better. It has exported some wheat to China and has traded wheat for coffee with Brazil. There is considerable controversy over the results of the work of the Board. Its policies have not been in effect long enough to warrant any accurate appraisal of them at the present time.

Among the forces working for rural betterment the churches, Protestant and Catholic, hold a prominent place. Much of the most effective rural leadership has been furnished by the churches. Among agencies of rural research and education those maintained by the churches are conspicuous. By these means an important contribution has been made to the understanding of rural economic problems, the organization of resources for their solution, and the interpretation of the needs of the agricultural population to the urban mind.



## SOME EMERGENT ISSUES

Among the issues discussed by farm leaders and representatives of the rank and file of the farming population, the following may be mentioned without any extended discussion:

What shall be done about farm taxes? It is being said that taxes on farm property must be reduced because the farm population is being more heavily taxed in proportion to income than any other group. How shall these taxes be shifted to other forms of property? What forms of property shall bear them? If taxes are to be shifted to other forms of property, what kinds of taxes shall be levied and upon what groups in order to make up the difference? Should there be higher state and federal income taxes on the urban population?

What shall be done about farm indebtedness? Dr. Arthur E. Holt, of the Chicago Theological Seminary, has recently said: "It is useless to try to maintain the old moralities which emphasize obligations to pay debts and to work hard and save and be frugal, unless we are willing to scrutinize how one part of the population gets another part into debt and to whom the rewards of labor are going." Dr. Richard T. Ely has proposed that in each county there should be established boards representing creditors and debtors which should make readjustments of the burden of debt, particularly that of mortgages, in the farm areas.

How shall we finance rural education and rural social service? In twenty states there are equalization funds by which the more fortunate school districts assist the less fortunate in maintaining certain standards of education. Should the same principle be applied to the country as a whole and should federal aid be given for the elementary education of farm children?

Can there be more urban-rural coöperation? More specifically, can there be farmer-labor coöperation? According to numerous historians, rural-urban conflicts and difficulties have existed through our entire history. It is alleged that coöperative activities on the part of farm and labor groups are absolutely impossible, because of economic competition.



On the other hand, there are those who contend that the common interests of farmer and labor groups are greater than their competitive interests.

It needs no argument to establish the unfavorable economic status of rural dwellers or the fact that in what is sometimes called "social income" they are at a great disadvantage as compared with the urban population. Yet the tillers of the land perform the most basic function in our economic life. The city has always drawn sustenance from the country, but seldom considers paying its economic debt.



## CHAPTER VI

### THE STATUS OF MANAGEMENT AND INVESTORS

THE preceding chapters have showed how the development of our economic system has made security of livelihood an increasingly difficult problem for workers. It is the purpose of this chapter to show that business has become a hazard also to managers and to investors.

To-day many enterprises are insolvent and not a few are in the hands of receivers. Their former managerial staffs are among the unemployed. A still greater number of concerns are "in the red," although not yet insolvent. Their managerial staffs are much reduced and those released have been added to the unemployed. From a social point of view the shock of maladjustment in the economic system has gone deeper than this. Many of the concerns which are still active have saved themselves through an expense reduction that has destroyed years of effort to build up a more humane industry. Following is the declaration of an owner-manager of a plant not far from the geographical center of the United States:

"Yes, I have probably saved the business—it will weather the depression. But the greatest values of my life's work lie in ruins. I have reduced employment to one-quarter of the normal force, and the community is dependent on this plant. I have at last had to cut wages—I who have stood always for higher wages. I had an efficient personnel department and it is dismantled. An efficient research department also is dismantled. We were among pioneers in establishing an unemployment compensation reserve and that was exhausted a year ago. We were pioneers in employee stock ownership and participation in management. The stock means nothing



to those who cannot hold it for a considerable number of years, and participation in management means nothing when there is nothing to manage. Yes, we are solvent and the business will come back. But the principal values of a lifetime effort have been destroyed. Not through bad management, for our management is rated as exceptional, but because consumers generally cannot buy the goods which we produce. When consumers have to retrench, our products are among the first to be cut off, for although they are convenience goods they are not basic necessities."

For our purpose there is no need of sharp distinction between investor, owner, and manager. Their interests and problems are pretty much the same. In the center of this group stands the owner-manager, who has invested in a business and is primarily responsible for its successful conduct; beside him stand other investors in the stocks of the concern. They are what the economist calls the "enterprisers." On one side of them stand investors who have loaned additional capital and taken fixed-income bonds secured by a mortgage on the tangible properties. They have discovered, however, that because of specialization of plants and equipment the certainty of the income and the value of the bonds depends chiefly upon the successful conduct of the business rather than upon the abstract value of the properties. On the other side of the enterpriser group stand various grades of managers; some with a slight investment in the business but with their principal income derived from salaries; others dependent entirely upon salaries, which makes them essentially wage earners and subject to much the same hazards as those treated in Chapter IV. Assurance of interest to investors in bonds, of dividends to investors in stocks, and of salaries to managers is dependent upon the success of the business as a going concern. This is the unifying hazard.

There have been profound changes in the conditions of success in business during the past half century. These changes have been cumulative in their effects over the entire period, but the World War accelerated them and has made them especially noticeable during the past decade. Funda-



mentally, the change has been from the industry and commerce of a deficit, pioneering society to the industry and commerce of a mature, surplus society of many complicated and delicate technical and price relationships and interdependencies. These relationships and interdependencies have developed without corresponding changes in motives, purposes, institutions, and habits of business to protect from maladjustments. The consequence is that, as we have seen, business is periodically subject to maladjustments and depressions which not only wipe out the gains of prosperous years but cause widespread insolvencies, bankruptcies, losses of property, and depreciation of investment values. Let us consider some of these changes in detail, this time from the point of view of the owner-manager.

#### NINETEENTH-CENTURY INDUSTRY

*Pioneering Industry:* In the days of our great-grandfathers the United States was an aggregate of limited regional markets. Population was scarce, transportation facilities were limited, and the marketing reach of any particular plant was correspondingly restricted. The typical plant was therefore small—of a size to produce the quantity of commodities which could be sold in a local market. Investment of borrowed capital was limited, for the machines of that day were relatively simple, inexpensive, and “multiple-purposed”—essentially magnified tools which extended the power of the human muscles which manipulated them. The overhead of fixed charges was small. Productivity, because of dependence on human powers and craft skills, was limited. Elaborate organization of an enterprise was not necessary, for the owner was usually general manager, in close contact with his workers. Organization was informal and supervision was a by-product of the personal relations of the owner with his workers. He also knew his markets and could judge with reasonable accuracy their capacity to absorb his output. Therefore, if he had reasonable talent for business and for handling men, he succeeded in establishing a satisfactory coördination between the elements within his business and



between his business and the market. The economic environment was propitious and favorable to success in business because rapid increase of population and abundant natural resources for exploitation caused rapid increase in wealth and effective demand. This demand did not then take a wide range, for consumer interest was concentrated on procuring basic individual and social necessities and facilities—food, clothing, shelter, bridges, dams, schools, churches, better transportation, and so on. Therefore our business man was not in great danger of estimating his markets inaccurately. When a depression came, as one sometimes did, he could restrict his activities and costs, was free of heavy fixed charges, could arrange about his debts with local bankers who knew him personally, could settle down to the conditions of a self-sufficient community, and could usually ride the storm without disaster. A depression was a depression, but it did not necessarily mean widespread insolvency, bankruptcy, and catastrophe.

*The Impact of Science and Engineering:* Even in the days of pioneer industry, every factor but one was present for the making of a highly developed industrial community. There were ability, genius for enterprise, human wants capable of rapid expansion, abundant varied natural resources, available foreign capital, and potentially abundant domestic capital. There was wanting science and engineering, and the instruments of power and productivity which they have since given industry. These appeared and began to make their influence felt shortly after the Civil War. It was that war which brought them into being, just as the recent World War brought a new increment of science and engineering into being. Almost simultaneous noteworthy results of the first impact of science and engineering were: rapid extension of facilities for transportation; extension of markets; increase in the size of plants; increase in variety, size and productivity of machines; increase of purchasing power; and a rapid accumulation of credit capital based on a justifiable confidence in the future of the country.

The primary influence of the rapid construction of railroads was to open up new areas of rich resources, to increase



purchasing power through interchange of commodities and capitalization of future income, to break down local markets and eventually not only to consolidate the United States into one great market but to start the process of its incorporation into a vast world market. An important secondary effect of railroad construction was the opportunity it offered for "enterprisers" with initiative to operate in the national market, and thereby to extend the proportions of their businesses. Increased sales meant increased production, which required larger plants and organizations and larger, more powerful, more intricate, and more productive machines. These also science and engineering promptly devised. As productivity and interchange of commodities increased, wealth, saving, and investment in new enterprises and ever newer machines increased. By the turn of the century the United States was well on its way toward a new era of magnificent productivity. Between 1899 and 1919 physical productivity in the United States increased 112 per cent. Between 1919 and 1927 it increased 46.5 per cent. Forty years ago Simon Patten was beginning to call attention to the transition from a deficit economy to a surplus economy, and was also warning the United States of new problems which the latter would bring.

#### TWENTIETH-CENTURY INDUSTRY

It is unnecessary to dwell upon certain commonly known characteristics of twentieth-century industry: the large size of many, and the huge size of some, plants; multiple plant corporations; huge investments in plant and equipment; continuous production and mass production; the keenness of competition and the struggle by advertising and otherwise to stimulate non-spontaneous demand; specialization and division of labor; the increasing power and automatic character of machines, and the diminishing requirement for labor energy and for labor skills. These are important, but it is more important for this exposition to give attention to the consequences flowing from them.

*A Surplus Economy:* It has already been pointed out that we are now in a surplus economy. This does not mean that industry can produce more than enough to satisfy human



wants—we are far from that stage even if we were to assume it to be possible. What it does mean is that industry is capable of satisfying more than common basic human needs such as food, clothing, shelter, transportation, communication, and play; and of relieving humanity of the ancient drudgeries involved. It is not true, of course, that it actually does supply these needs for every individual, but it does so for a sufficient number of people to modify profoundly the conditions of business. Energies not required for satisfaction of these needs are turned to the satisfaction of “higher” wants characterized by quality, variety, individuality, style, and other similar characteristics. The surplus is simply a surplus over simple basic needs, making possible an expanding standard of living. Paradoxically, this higher standard of living has created new hazards not only for workers but also for investors and managers operating in a competitive and price economy.

*Caprice in Demand:* The demand for these “higher” satisfactions is more capricious than the demand for staple necessities of a pioneer society. It is more subject to withdrawal, and dependent both on individuality in demand and mass movements of demand. In a society where the basic needs of food, clothing, and shelter are not yet adequately met, a merchant or producer may forecast demand with reasonable accuracy; but once these needs are met, the forecasting of the higher demands becomes more difficult. A community just beginning to utilize plumbing and bathtubs is an easily calculable market for any manufacturer of these commodities; but a community which is well supplied with tubs and is beginning to turn to decorative bathroom equipments is a much less calculable market. The quality of the demand is not easily measurable and may change suddenly. Business becomes largely a matter of guessing. A recent study has discovered that in 1929 caprice goods constituted 25 per cent of all retail sales in the United States.<sup>1</sup> This is

<sup>1</sup> Lough, William H., “Consumers’ Retail Purchases, Pre-War and Post-War,” *Bulletin* of the Taylor Society, New York, December, 1931, p. 239.



one hazard which surplus economy has brought to business, and against which management has to contend.

*Machinery and Productivity:* Not only is demand capricious and therefore variable in a surplus economy, but so also is the capacity to supply that demand variable. So far-reaching have been the achievements of physical and chemical science and of engineering that there appear frequently new commodities to compete with existing commodities, and new mechanical devices to compete with those already in use. The resources of engineering have hardly been tapped. Given abundance of capital—and capital is now abundant—these production equipments are economically practicable and are called for continually. Some of them can make new commodities. Some of them can make familiar commodities more economically with respect both to labor cost and to machine cost. Every newly organized enterprise, because it is free to use the advantage of the most recent cost-saving inventions or designs in equipment, is a hazard to the existing members of the industry whose investments are in relatively inferior equipment. It creates the hazard not only of technological unemployment for workers of all grades but also of technological unemployment of machines, and sometimes of entire plants and consequently of invested capital.

*Obsolescence:* Therefore another hazard in a surplus economy is obsolescence. Obsolescence is not depreciation. Depreciation refers to the wearing out of building, machine, or tool through use, although the economic and technical need for it may remain the same. Obsolescence refers to the disappearance of the economic or technical use of a machine, plant, or service, even though the thing remains in prime condition for the particular use for which it was constructed. Obsolescence may appear suddenly, as in the extreme case of an evening gown which the owner's social status permits her to wear only once; or by increments, as when the self-starter at one time and the balloon tires at another time made earlier motor cars partially obsolete. It may affect other than material things, as when the widespread introduction of electric refrigerators in a community destroys the



iceman's business. Obsolescence may be interrelated, as when the discontinuance of the use of ribbons for trimmings on women's gowns rendered the ribbons obsolete, which made ribbon machines obsolete, which made some entire plants obsolete. A new invention in one plant may render the products and equipment in a competitor's plant obsolete and put the latter plant out of business. The phonograph all but destroyed the piano business, and the radio has all but destroyed the phonograph business. Obsolescence is a serious matter to investor, owner, and manager in a period of new inventions and of capricious demand in a surplus economy.

These factors of caprice demand, mechanical inventiveness, and obsolescence characteristic of a surplus economy would be sufficiently disconcerting to investment and management under the most favorable circumstances; but there are certain business institutions through which business to-day operates, surviving in a form determined by an earlier economy, which complicate and intensify these hazards.

#### SOME UNADJUSTED INSTITUTIONS

*Overhead of Fixed Charges:* In a surplus economy of unlimited markets and therefore of apparently unlimited extension of business operations, and of almost unlimited capital available for such extensions, business gradually builds up a great overhead of fixed charges having a constant money-value demand on the earnings of the borrowers. One might say that business should be more conservative in that respect. Perhaps if one man or group were to determine the borrowings of all business it would be. However, our present industrial society is highly individualistic; each business operates according to its own judgment; each is carried along by an impulse to attempt to secure a larger share of the market which it believes is available: "Competition is the life of trade!" The consequence is that the aggregate of such uncoordinated competitive moves establishes a great overhead of fixed charges. These credit relationships are delicately adjusted and subject to maladjustments which, once started at any point in the series of



relationships, sweep throughout the entire area. The saying "Let depression take its course; economic laws will straighten out the situation" means that matters will be "straightened out" by enforcement of contracts, insolvencies, and transfer of properties, and that a new set of owners will start a new activity free of this burdensome overhead—until they have created another intolerable overhead and the cycle of "straightening out" starts all over again.

*Overhead of Capitalization:* Theoretically, one who owns a share of stock is a participant in a business and knowingly subject to the risks of variability in profits involved. This status is obvious in a partnership or a small closed corporation. But with the development of investment banking and the spread of the securities of a business throughout a wide market, the attitude of investors becomes radically changed. They think of themselves as entitled to a reasonably constant return. They build up expectations of income, credit obligations, new and more expensive habits of living, and constitute a pressure on the managements of enterprises to treat them as an overhead of fixed charges. Instead of a legal fixed obligation, there is created what may be termed a psychic fixed obligation which complicates and increases the hazards of the effective owners and managements of enterprises. This hazard is further extended by the fact that capitalizations are generally based on earnings; and, since the initial earnings of a new enterprise are usually large, the psychic overhead of capitalization is too large for the business after it settles down to normal demand and competition. It is subject to the hazards of invention, caprice, and obsolescence. The automobile industry is an excellent illustration of one which has through splitting of stock built up a huge psychic overhead.

*Savings and Investment:* In a pioneer capitalistic society saving is a hardship: one has to abstain from the consumption of basic necessities which one so much desires. Therefore accumulation of capital begins slowly. Theoretically, in the development of a society early savings are for the purpose of acquiring capital goods and later savings should be only for maintenance and gradual additions. But as a matter of fact



as a society becomes mature and wealthy, saving comes more easily because, on the one hand, income is greater and on the other hand it is less of a hardship to abstain from consumption after basic necessities are assured. Furthermore, if there are inequalities in the distribution of the social income, as has been the fact in the United States,<sup>2</sup> saving becomes particularly easy for the favored group. That group cannot possibly consume its income and is compelled to invest part of it. This, coupled with continual invention, discovery, and design of new products and machines, causes a multiplication of production equipment and of productivity which creates goods faster than there is built up a purchasing power capable of passing them along into channels of consumption.<sup>3</sup> Purchasing power in a society is dependent primarily upon wage earners and salaried consumers, not upon investors. But because of fixed overhead and high capitalization and the importance, if they are to be met, of low costs in the individual plant, there is a constant resistance of managers to increase of salaries and of wages and to reduction of prices, so that the primary purchasing power increases less rapidly than the quantity and money value of goods to be purchased.<sup>4</sup> This not only constitutes a continual hazard to business but is perhaps the primary cause of depressions.

*Mass Production:* Both the large enterprise engaged in mass production and the competing business of small volume are hazardous. In a time of active business and capacity production the mass-production plant can produce more cheaply per unit and can sell at a lower price than its small competitors and therefore can drive many of the latter out of business. But in a period of depression the large plant is so burdened with the high costs of fixed overhead, occasioned by its investment in costly single-purpose mass-production equipment, that the surviving small competitor can undersell it and perhaps prevent it from meeting its overhead charges.

<sup>2</sup> Cf. Chapter III, pp. 28-36.

<sup>3</sup> For a discussion of this overcapacity, see *Bulletin* of the Taylor Society, June, 1932, pp. 94-99.

<sup>4</sup> Henderson, Fred., *The Economic Consequences of Power Production*, Geo. Allen and Unwin, Ltd., London, 1931.



Each is a menace to the other when the swing of the business cycle favors it.

#### SUMMARY

It has been the purpose of this chapter to indicate briefly how the present economic system affects investors and managers by making their enterprise more hazardous. It has been impossible for want of space to give more than clues to the explanation. A surplus economy with abundant capital, highly productive equipment, rapid increase in that equipment, demands of caprice, obsolescence, high fixed overhead, delicate credit relationships, an elastic currency and variable prices, a productivity mounting faster than the purchasing power of the mass of consumers is developed to absorb it—these are the elements which make individualistic competitive business a hazard today and, if they are not modified, an ever greater hazard in the future.

Apparently modification is inevitable if industrial society is to survive; and that modification must strike at the root of the trouble by restraint of uncoördinated individualism in enterprise. It has become evident that in a complicated society what appears to the individual good for him is in many instances not good for the group. The reconstruction of a stable industrial society must rest upon recognition of that fact. To this subject consideration will be given later.

Well may the owners and managers in business exclaim as do Antonio and Bassanio in *The Merchant of Venice*:

ANTONIO: In sooth, I know not why I am so sad:  
It wearies me; you say it wearies you;  
But how I caught it, found it, or came by it,  
What stuff 'tis made of, whereof it is born,  
I am to learn; . . .

BASSANIO: . . . but my chief care  
Is to come fairly off from the great debts  
Wherein my time, something too prodigal,  
Hath left me gag'd.



## CHAPTER VII

### THE CONSUMER AND THE ECONOMIC SYSTEM

ECONOMIC consumption refers to individual family and community use and enjoyment of the commodities and services purchasable in markets. One's standard of living, or the goods and services he is able commonly to enjoy, is his personal return for his whole economic effort. The consumption of a people is the best single test of its economic system; the question is, what standard of living does it maintain among the people? The answer for America is that, though our standards have been high relative to those of other lands, yet we have had even in good times two million families living in poverty and three million more just winning a bare physical existence, and forced into poverty whenever income was irregular as in a business depression.<sup>1</sup> How improve consumption?

First, consumption can be improved by improving production, the source of the goods and services needed for human living, so that larger quantities of present goods, new kinds of goods, and lower prices per unit for consumers' goods are achieved. The producer, who is trustee for the consumer, is too often motivated by profit-making rather than by a desire to produce goods that will most adequately meet the consumer's needs. One sees this in adulterated fabrics and food stuffs; in public officials holding office as a sinecure without regard to the service they render; in unstabilized employment when industry is so operated as to safeguard primarily the profits of owners, with little regard to the security of wages to the worker, the maintenance of whose income is essential to his consumption.

Next, adequate money incomes are necessary for adequate consumption. Therefore, efficient bargaining power of labor

<sup>1</sup> Nystrom, P. H., *Economic Principles of Consumption*. New York, Ronald Press, 1929.



unions and coöperative selling by farmers, for example, are really demands for better consumption, as are all industrial policies looking toward the regularization of income.

Again, intelligent spending of personal incomes in retail markets will improve living standards. Consumption is unsatisfying, in part, because the consumer as retail purchaser does not intelligently select the goods and services which will best meet his needs.

Finally, consumption may be improved by attention to the process of use itself—utilizing to their full possibilities the goods and services which we already possess; the unread book, unextended hospitality, unused equipment for recreation, are typical of unrealized satisfactions within our grasp.

Rational consumption, viewed socially, looks toward securing the minimum essentials for all members of society from birth to death, in accordance with their manifest needs and potential capacities; the aged and the young must have their needs met as well as those of adult, producing years who immediately control current money income.<sup>2</sup> Wide differences in earnings between different occupational groups, as between farmers and urban workers, need to be adjusted, so that persons of equal productivity may tend to get more nearly equivalent incomes.<sup>3</sup> It is desirable to reduce the great fluctuations in earnings and hence in consumption, caused by the business cycle and by changes in price levels; the disparity in respect to security between owners' and workers' incomes should be adjusted.<sup>4</sup> Some adjustment of income and consumption to family needs is desirable. At present income is distributed almost entirely on an individual basis.<sup>5</sup>

Consumption includes the use of personal services as well

<sup>2</sup> Hoyt, E. E., *The Consumption of Wealth*, New York, Macmillan Company, 1928; Rowntree, B. S., *The Human Needs of Labor*, New York, Longmans, Green and Company, 1925.

<sup>3</sup> Clark, H. F., *Economic Theory and Correct Occupational Distribution*. New York, Teachers College, 1931.

<sup>4</sup> Hamilton, Walton H. and May, Stacy, *The Control of Wages*, New York, Macmillan Company, 1927.

<sup>5</sup> Douglas, P. H., *Wages and the Family*. Chicago, University of Chicago Press, 1925.



as of material commodities. Obviously, we consume concrete commodities, or more precisely, their utilities, in order to satisfy our needs; but just as certainly we consume, that is, use in meeting our needs, the physician's professional skill and the competence of the nurse, actor, stenographer, teacher, and of every other person who works by establishing the want-satisfying relationship between his personality which can meet a certain type of need, and another personality which has that need.

Information regarding quality of retail goods is needed by consumers. "Let the buyer beware," is the ancient maxim. Whoever buys runs the risk of mischance in choosing. Industrial buyers, wholesale buyers, are trained and informed, have professional organizations, codes of ethics and trade journals, and use objective tests of products. But the retail purchaser, buying intermittently and in small quantities and often from clerks who are as ill-informed as himself, is not in a position to accumulate exact knowledge of goods and services purchased. The manufacturer or dealer, by using trade marks and brands, tries through advertising to build up attitudes of goodwill and to bind purchasers to his products. Yet different goods may be sold under the same brand or the same goods under different brands. The brand may be efficient as an advertising device but it is not efficient in guaranteeing quality for the retail buyer. Hence there has come a demand for objectively graded retail goods which shall meet specifications openly known and certified to by trade or government authority. Grade A and Grade B milk are illustrations; recently, grades of refrigerators, grades of brooms and of a few other commodities have been established, which may lead ultimately to the retail buyer having exact knowledge of quality similar to that which the U. S. government enjoys through its Bureau of Standards, its tests, and its master specifications for government purchasing.\*

The customer is beginning to organize and to demand

\* See Chase, Stuart, and Schlink, H. J., *Your Money's Worth*. New York, Macmillan Company, 1927.



knowledge as to what he buys. Consumers' Research Incorporated, 24 West 25th Street, New York, furnishes its 40,000 members with lists of confidential information, grading many kinds of consumer goods, as to first and second qualities and prices, and indicating what are the best buys for the money.

Controlling one's own "consumer's dollar" is a practical first step. Acts of purchase tend to distribute one's money in the market in proportion to the relative importance of different goods and services to the consumer; but he is too largely constrained by habits of spending and by social pressures from the spending of others which leave money allotment for different purchases largely irrational. How control the use of money? The Golden Rule of money spending calls for three types of proportion: (a) proportion between the present and the future, that is, between present spending, as for to-day's recreation, and the saving of money for future major needs, as for financial security; (b) proportion in allotting money among different objectives, that is, in present spending between food, housing, clothing, recreation, and personal improvement, and in saving, between the different possible fields of investment; (c) proportion in money use between the different individuals of the personal groups to which one belongs as between husband and wife, or parents and children in family spending.

There is an art in money use, which consists of three steps: (a) personal budgeting or planning the use of money; (b) personal accounts or the financial recording of money receipts and expenditures in classified form; and (c) money audit through the inspection of records of money use and their comparison with previous budget plans, and the making of new plans for future money spending based on past experience. Personal accounts are wisely kept in all situations that call for learning new habits of money use; for example, by the beginning worker, the newly married couple, the family with increased income, or with increased needs, or with decreased income, or decreased needs. Published standard budgets of individual and family spending give some guid-



ance and suggestion for any individual's actual budget, but the latter must be developed as an individualized plan out of personal experience.<sup>7</sup>

Skill in selecting goods is at present largely gained by experience; but special knowledge and training are increasingly available for the consumer—in selecting food or clothing, in enjoying a picture or music, in meeting needs of body and mind. Consumption is not a matter of external economics alone; to the individual it is also a personal and spiritual matter.

Important points in personal consumption management are: (a) to be aware of the diminishing satisfaction in continued consumption of any single commodity, or in any single field of interest, and the renewed satisfaction that comes from variety of consumption; (b) to get satisfaction also from habitual consumption, from use and custom, from security, from a living that is related wholesomely to the instinctive backgrounds of life; (c) to balance wisely the security and stability of habitual consumption, with the satisfactions from changing, varied, and rich experiences; (d) to study alternatives in consumption; to develop character—to make one's own choices rather than accept as binding choices prescribed by the group; (e) to relate the parts of one's consumption into a harmonious whole which is typically the normal life of the family group lived in active relationships to community and wider groups; (f) to help plan the consumption of groups to which one belongs, and to find pleasure in the consumption of others, members of one's family and friends of the widest brotherhood.

The community as consumption agency raises standards of living. Modern society increasingly provides group consumption to supplement that immediately controlled by the individual. Social protection, public education, public health, public recreation, public art, public financial security for the individual represent increasing coöperation by all of us in the

<sup>7</sup> Donham, S. A., *Spending the Family Income*. Boston, Little, Brown and Company, 1921; Schnedler, William, economic adviser to Western Electric employees, *How to Get Ahead Financially*. New York, Harper and Brothers, 1926.



effort to secure a good living for each one of us: with urbanization, there is increased need for group consumption. Examine the details of increase in public educational facilities over the last hundred years, the similar expansion of public health services, of recreational facilities, and now the promised extension of public welfare and social services for all needing guidance. The beginning worker, the orphan, the widow, the aged, the sick, the unemployed, the wayward, are obviously to become the object of skilled social service directed toward securing the best possible life for all. The tax dollar is in some respects the best spent dollar of the private purse.

Consumption of self-service products raises living standards. Any one can increase his consumption benefits by producing goods and services for his own use. We see this in the farmer's family which produces part of its food; in every household where half the living is contributed by the housewife's work and managerial skill. Even the single person who does things for himself, cares for his own clothing, or learns a new art, such as music, enjoys its practice, is enriching his consumption, and raising his own standards of living. The factory worker who can live on a quarter-acre homestead will live a richer and more secure life whether times be good or bad.<sup>8</sup>

The small consumer has long had thirty-day store credit, but chain stores are eliminating this protection against minor financial emergencies. This has been supplemented in recent years by installment purchase credit which, however, adds a high cost (often 20 per cent) to purchase price and brings a burden in time of unemployment that is of distinct disadvantage. Fraud and usurious interest which have long hampered the private credit of the small man who must seek an emergency loan are at last being checked by remedial loan legislation, setting a maximum rate of  $3\frac{1}{2}$  per cent a month; under which there are developing personal finance corporations which provide small loans, though necessarily at a rate

<sup>8</sup> Massachusetts Agricultural College (Amherst) publishes a bulletin on "Part-time Farming in Massachusetts."



several times that of ordinary bank loans. Coöperative credit unions and loan funds in industry are useful expedients.<sup>9</sup>

Consumers gain and lose through selling pressure and advertising. If sales pressure makes the consumer want more things of a desirable nature and makes him work to get them, it becomes a personal benefit to him; and this consumer, aroused to new needs, may exert more productive effort, which is a social benefit. But in so far as one is going to buy staple goods anyway, the advertising of them is social waste. In so far as advertising is merely competitive, or aims at switching buyers from one brand to another of the same commodity, it is social waste. There is, however, some general value in all advertising, even competitive. Advertising has created the hair-trigger type of buyer's consciousness, the consumer's general awareness of the market and readiness to buy, which is characteristic of the present economy, and this has probably been fundamentally constructive in the stages of development through which we are passing from domestic handicraft to large-scale mass production and distribution.

Fraudulent advertising (and there has been much of it) is economic loss. Most states have adopted the honest advertising law which punishes such advertising. Better Business Bureaus, organized in forty leading cities by groups of business men, render protective service to consumers by checking questionable advertisements, by promoting the advertising of consumers' goods in terms of objective standards, and by offering advice to consumers as well as to merchants.<sup>10</sup> The Federal Trade Commission in Washington acts on business men's complaints of unfair trade practices, and thus checks some operations which would tend to the disadvantage of the consumer.

Socially planned consumption may eventually help to stabilize production. Producing organizations, such as trade associations, have long been collecting facts of consumption as

<sup>9</sup> Schnedler, William, *op. cit.*

<sup>10</sup> The National Better Business Bureau, 405 Lexington Avenue, New York, will give information.



a basis for better organized production. One constructive present proposal is that some organization should record trends in consumption and estimate future consumption to aid in balancing production and consumption. Increased consumption consciousness on the part of the individual may contribute knowledge of consumption that will be helpful in the planning of business.

Consumption may be aided by coöperative organizations. The Coöperative Building and Loan Association is a striking example of successful coöperation in America. Every group organization for consumption purposes—church, fraternal orders, country clubs, art associations, and other groups of like-minded people who achieve a satisfaction through group effort—encourages the hope that more strictly economic coöperation (as in coöperative stores, coöperative housing and credit unions) may play a larger part in raising standards of living.

Industrial research aimed at promoting production aids consumption; direct consumer research, illustrated by nutrition investigations dating back a hundred years, has recently been extended by the Purnell law, establishing home economics research in the state agricultural experiment stations. Many organizations promote better consumption—for example, The National Housing Association's work for housing laws, The American Medical Association's war on nostrums, the organizations seeking to reduce liquor consumption, and to encourage better motion pictures, municipal recreation facilities, and the like.

Taxes might be so levied as to improve conditions of consumption. The sales tax recently discussed was objected to primarily because of the adverse effect upon general consumption; the income tax, and the progressive income tax especially, is favored because of its salutary effect on the general level of consumption. Progressive inheritance taxes operate similarly toward raising the general standard of living. Real estate taxes on homes are criticized because of the burdens they bring upon the small income worker; tax exemption on limited dividend housing for low-income work-



ers in New York recognizes the principle of taxes adjusted in terms of consumers' needs. An approved principle is that all taxation should be critically viewed as to its effects on consumers and adjusted toward untaxed spending of the minimum incomes necessary for the consumption of necessities.

As taxes are used increasingly to maintain social services under government control rather than to pay for past and future wars, they will aid greatly, through social consumption, to equalize economic opportunity, and to raise the standards of living of lower paid workers through social income.

The consumer will benefit from freer international trade: first, by the access of the world's raw materials and a world-wide variety of manufactured goods to our markets; and next, by consumer price advantages, since American goods meeting world competition will be priced closer to a cost basis than under high tariffs. Will low tariff cause more loss by wage reductions than gain by price reduction? The question requires consideration, but it is significant that one thousand economists urged Congress recently to move toward lower tariffs for general welfare reasons, which means consumers' interests.

Under freer world trade, the consumer may not only enjoy desirable goods from abroad but may also take satisfaction in our sending abroad needed goods that will tend to improve standards of living in other countries. Our neighborhood is now the world.

As has appeared earlier in this study, violent fluctuations in price levels impede orderly consumption. If prices advance, personal reserve accumulations for emergency spending, for old age and so forth, are cut in purchasing power; if prices fall, long term debts undertaken by the consumer such as mortgages for home purchase, increase in burden, since every dollar saved now to pay them off represents increased purchasing power sacrificed. The consumer should be among the foremost to work for a more stable monetary system.

Consumers have responsibility, so the Consumers' League holds, for the conditions under which production goes on:



a dollar spent for any commodity is a vote to continue the production of it under present conditions in shop or factory. So the League has used "white lists" and "white labels" to inform its members of recommended stores and products which maintain approved working conditions, hours, and wages. But the *noblesse oblige* of the consumer may also express itself individually upon any matter where an expressed opinion on retail commodities will aid the general welfare; for example, to check such wasteful practices as "returned goods"; to criticize an inartistic product, or a poorly constructed one; and to praise where praise is due. Fewer than twenty complaints of a commodity in metropolitan department stores may cause its withdrawal. Consumers' dollars are votes to be cast with intelligence.

Consumers do not scrutinize as critically as they might the conditions under which those who serve them in important ways live and work. Thus, wholesome housing is unavailable for one-third of our population who live in the cast-off housing of the better paid classes. Their present housing is not only often physically unwholesome but it is commonly anti-social in its effect on children whose overcrowded and noisy, dirty surroundings lead them to delinquency. Optimists believe that builders will some time discover quantity methods of house construction for the needy third of society at a profit. In the meantime, housing realists in all European countries by one method or another have for years been using government authority and credit to rehouse slum dwellers. By means of government loans to coöperative building societies, Holland has rehoused one-fifth of its people since the war.<sup>11</sup>

Food consumption was safeguarded 26 years ago by the Pure Food and Drug Law (1906); later the net-weight container act required honest labeling of contents; food containers are being standardized by law; foods themselves are being graded by trade agreements first, and then by government action—as in the milk grades. But much is still needed in

<sup>11</sup> Wood, E. E., *Recent Trends in American Housing*. New York, Macmillan Company, 1931.



the way of social control of food quality and economic protection of the consumer.

Textile and clothing consumption may in time be safeguarded on a specification basis, with graded goods; social control of weighting of silk, and of cotton-wool percentage composition of fabrics, etc., is being proposed.

Fashion serves as a source of variety and æsthetic satisfaction, but causes waste through fluctuating employment and through useful goods becoming obsolete. The consumer may advance his own interest by adopting moderate expressions of the mode, and by emphasis on intrinsic fabric and æsthetic quality rather than on fashion novelty.<sup>12</sup>

Medical services, even when critically needed, are not available to all, since their organization as "private practice" concentrates such services in the cities and leaves smaller places and the open country inadequately supplied; and also since money income is not sufficient for the poorly paid to buy this essential. Yet doctors have always given services freely to those unable to pay and have adjusted their charges to others in proportion to ability to pay. Society, which has made education free and accessible to all, may yet make medical and surgical care similarly available.

One outstanding maladjustment is the failure to provide universally the services necessary for maternal health and for infant health: there are 15,000 maternal deaths a year in the United States, two-thirds of them preventable; our infant mortality rate, once about 125 per 1,000 live births, has been reduced to 65, but rates elsewhere are as low as 35. In 1929, federal aid to states to encourage maternal and infant health teaching and services was stopped; this life-saving service formerly carried on by the United States Children's Bureau is greatly needed.

A striking illustration of waste in consumption is funeral costs, averaging about \$400 per adult and \$150 per child under 12 years of age; and usually by ostentatious spending for the dead wiping out one-half the total resources of the

<sup>12</sup> Nystrom, P. H., *Economics of Fashion*. New York, Ronald Press, 1928.



surviving family members. It costs more to die than to be born. Absurdly, we pay more for the irrational conventions of funeral services than we can spare to safeguard mother and child in the crisis of birth. Municipally controlled or provided funerals in Switzerland and Germany cost \$25, more or less. Twenty Mid-western coöperative burial societies recently organized have cut funeral costs to \$150 or thereabouts. Church or fraternal orders might make group provision for this emergency expenditure in accord with rational standards.<sup>18</sup>

A sound philosophy calls for a pattern of consumption that includes education, marriage, parenthood, and all the normal functions of life. To see life steadily in its personal and spiritual values, from youth to old age, is the first requisite for a satisfying economic consumption.

<sup>18</sup> Gebhart, J. C., *Funeral Costs*. New York, G. P. Putnam's Sons, 1928.





## CHAPTER VIII

### HUMAN NATURE AND THE ECONOMIC ORDER

As long as many of us can remember it has been a common remark that human nature is itself the chief obstacle to social reconstruction. Both theology and economics have emphasized the inherently selfish nature of man. Theologians have taught that man is in a "fallen state" entailing upon all human beings a heritage of "original sin," while the economists have played with the idea of the "economic man"—a hypothetical creature bent upon securing in one way or another the largest possible material rewards. On the whole, though, the theologians have painted the brighter picture, for though they have conceived of man as fallen, they have consistently held that he is capable of redemption. The economists, on the other hand, have left no place for anything corresponding to the conversion experience: man has been assumed to go on indefinitely seeking his own private ends in terms of material goods.

This view of man and of economic life comes down from the "classical schools," according to which economics is a sort of physical science and the major forces with which it deals are largely blind forces. We have heard much of the "immutable laws of economics," the "iron law of wages," the unchangeable "law of supply and demand." With its dreary inexorables, economics came to be called the "dismal science." Even the socialists—of the strict scientific type—and the communists, who think the class struggle an inevitable, unremitting force in economic life, cling to a "deterministic" view of economic relations; that is to say, they hold that all one can do is to conform to the mechanical workings of established laws which are imposed upon him from without by nature. Wages and working conditions and even human ideas and aspirations are assumed to be determined by inflexible



economic forces. Thus on both the conservative and the radical wings of society, man is regarded as the creature of forces which he cannot control. Of course, this statement is true only of the extremes of theory; but it indicates very significant intellectual influences in the building of attitudes toward the economic order.

### THE NEW ECONOMICS

In recent years new voices have arisen in the ranks of the economists, announcing that economics is not a dismal science of blind forces but a social science which can teach man to govern his economic life, just as the physical sciences have taught him how to produce food and to construct dwellings. They hold that he can bring unused motives into play and create new instruments of social control. They are saying that, although the forces recognized by the older economists are real and significant, they are not the exclusive factors and arbitrary forces that they have been assumed to be. These economists find in human nature other demands than those for food, clothing, and shelter which function in economic relations. For example, contrary to the contention of many economists connected with organized business who deplore labor organization as an interference with the "labor market," these newer economists find in labor organization a legitimate factor in the control of wages. They believe that rational processes can be substituted for blind automatic process which the *laissez-faire* theory takes for granted. They conceive of the production and distribution of goods as a function of the community which cannot be left to the competitive struggles of an "economic man," but which should and can be purposefully organized and directed.

Obviously, so revolutionary a doctrine needs support from those who are best able to tell us about human nature. And we naturally turn to the social psychologists and the educators to learn whether there is any warrant for the idea of these prophetic economists that humanity can discipline itself, govern its elemental impulses, and organize its most basic functions.



## THE TESTIMONY OF PSYCHOLOGISTS AND EDUCATORS

The social psychologists and the educators are now ready with impressive and somewhat startling answers. They say, first, that the notion of "human nature" as a fixed entity is a mistake. They say that the human mind has no determined and unchangeable patterns of behavior—that so-called instinctive responses to stimuli can be "conditioned" in a variety of ways; and therefore that "human nature" is in a sense always in process of being remade. To the complaint, "you can't change human nature," present-day psychologists answer, "not only *can* you change human nature, but in the modern world you cannot *keep it from changing*." They do not deny that certain clearly marked tendencies persist generation after generation, nor that education has to grapple with certain obstinacies and "bents" that are deep in human nature, but they see in changing situations and social sanctions the cause of new attitudes, impulses, and habits in individual human beings. They admonish us against splitting human nature up into parcels of instincts and explaining particular behaviors by reference to isolated portions of our "nature." For example, an artist does not paint a picture just because he is hungry. He may be obliged to make his living by painting, but he is satisfying other demands of his nature when he paints. His whole personality is expressing itself. Human beings tend to react as *personal wholes* to *total situations*, and these personal wholes and these total situations include many changing and modifiable elements.

All of this reminds us of religious teachings about the possible redemption of human nature. To be sure, the psychologist is not disposed to think of human beings as ever having been in such grievous case as it has been the wont of theologians in the past to declare. In a word, psychology seems to give support to the claims of evangelical religion, and both psychology and religion bring support to the newer school of economists in their contention that economics is a hopeful and not a dismal science.

Another important element in the situation is the news



from the psychological laboratory, laying a ghost that has stalked long and convincingly—the ghost of the hopelessness of maturity; in other words, the idea that “you can’t teach an old dog new tricks.” Along comes the educational psychologist and says that you can. So long as learning was assumed to be a function of youth, and maturity was assumed to be stolid mentally, the prospect of securing any fundamental change in the social order through education was slight. On that assumption, youth was under the necessity, after enjoying its utopian fling, of finding its place in a world ordered and maintained by uneducable adults who had long ago “learned many things that were not so” and who could never “unlearn” them. Thus, the outlook for social change was discouraging. But if these older people who run the world in this present generation can be reeducated and adapted to changing conditions and new needs the situation is different. Here again the optimistic economist, bent on making economics a social science and bringing it to the service of man, gains invaluable support from the educational psychologist.

### ECONOMIC INCENTIVES

Let us now make a brief survey of some of the principal incentives that operate to-day in the areas of economic activity and inquire into the strength of those incentives that are socially useful and into the possibility of displacing or modifying those that seem to be a social liability. We may admit that some of these incentives are rooted in tendencies that are “instinctive” in that they appear without having to be learned and are practically universal. The question thus becomes one of substituting new incentives for old, or of finding new ways to make old incentives dominant. The following list is not assumed to be exhaustive but it is sufficiently inclusive for our purpose.

1. *Acquisitiveness*: Undoubtedly the tendency to amass possessions, to create property for personal satisfaction, plays an important part in our present economic life. It is the basis of the profit system. The classical economics assumed that



this is true because human beings "are like that." "If you want a man to work, give him an adequate substantial reward." The plan has worked, manifestly, to a degree. But several questions arise about it. May not the strength of this incentive be due partly to the blocking and thwarting of other, less self-seeking impulses? And even if it be granted that the profit incentive has played an essential part in building the present economic order, does it necessarily follow that such a powerful self-seeking incentive is needed in the present world situation? Professor John A. Hobson says of the modern type of Napoleonic business and financial genius: "He is often perhaps truly regarded as a necessary factor in the modern world of finance. But that is not his vindication, but rather the condemnation of a financial system which requires and evokes his predatory presence. Such useful service as he renders, incidental to his profiteering office, he is overpaid for. Most of his work is socially noxious, and only seems necessary in an era properly described as one of financial anarchy."<sup>1</sup> In other words, the central drive in the economic system—self-interest—has done its work too well and the *laissez-faire* economists have proved too much. Where is the truth of the matter? Certainly at the present time, with the lesson of a great depression fresh in our minds, the acquisitive motive seems to have been in considerable measure a liability. Does this mean that we can, and should, seek to displace it? At least we can search for incentives more in accord with the Christian ideal which it may be quite possible to introduce into our economic life, even though at present they may be crowded out of the picture by the premium that is put upon the acquisition of property.

What is true of the incentive for gain is true of the quest for power. This may be regarded as another aspect of the acquisitive impulse. It usually shows itself in those who have reached a relatively high level of material success. As a powerful self-serving impulse, it leads to great inequalities

<sup>1</sup> Hobson, J. A., *Incentives in the New Industrial Order*, New York, Thomas Seltzer, 1925, p. 98.



in the economic world. It has, of course, its social aspect, since power is often used to create social values. A dictator may abolish evils and improve the conditions of human life. But power sought and gained as an expression of an "*ego urge*" creates one of our greatest problems.

Yet if we seek to subordinate the property and power incentives we must, of course, find some way to administer the surpluses which society normally accumulates and which are now in the hands of the wealthy; and we must also find ways to perform the important functions of social control which are now entrusted to individuals whose reward is the satisfaction of exercising power. In other words, whatever principle of motivation we adopt must be one that will do the work for which we have in the past relied on self-seeking impulses.

2. *The Desire for Prestige*: A person who attains business success gains not only possessions and power but something perhaps even more alluring—the reputation for having achieved or acquired something extraordinary. A great economist has pointed out that one of the main uses of wealth at present is display—the showy mansion or the costly automobile. By means of it men advertise themselves, they label themselves, so that he who runs may read. And we must remember that this applies not merely to the rich and powerful but to all of us. For do we not all make use of our possessions to maintain a social status? If one does not live on a Park Avenue or a Gold Coast he very likely does live in a section and in a type of residence that is clearly marked off from those below him in the social-economic scale. And the prestige that attaches to each level of life is one of our chief social possessions. Is this an inevitable condition of life? From one point of view it is our way of being social, for we find satisfaction not merely in being superior to others but in conforming to the standards of our own set. Doubtless, prestige has its social uses, for without regard for the opinions of our fellows we should not be moral. But ordinarily the people one cares most about and those whose approval he seeks are the members of his own social-economic group.



Thus classes are built up and maintained that may have little spiritual or intellectual significance.

An impressive illustration of this prestige problem is often seen in family life. Certain members of the family who would gladly live more simply find it impossible to surrender the privileges that are essential to family prestige because other members of the family are unwilling to do so. It not infrequently happens that the women members of a family become, so to speak, the custodians of the family prestige and find it more difficult to modify their scale of living than the men, whose elemental impulses are in larger part satisfied in the activity of acquiring property. This same factor of prestige standardizes schools and clubs and even churches into self-conscious cliques and social sets. Indeed, the prestige of an institution often overcomes individual sympathies and contributes to the separation of people from their fellows.

How shall this factor in human life be dealt with? Two outstanding ways suggest themselves. One is to influence individuals through religious and moral discipline to live more humbly. This is the time-honored way of Christianity. When we look about us we are likely to feel that such a way as this is "strait" and "narrow" indeed, and "few there be that find it." But those who have found it have discovered other and more useful forms of self-expression. The other way is to break down the material barriers to human fellowship by bringing about a far greater measure of equality in wealth and privilege. This may be quite as Christian as the way of individual discipline if we think of Christianity in social terms. From the modern Christian point of view, both the discipline of the spirit and the reconstruction of society are essential.

3. *The Desire for Security*: When we think of this incentive we have in mind those whose possessions are still too few to provide a firm footing in the struggle of life. The depression through which we have been passing has brought multitudes to this level who never knew it before. And what a revealing experience it has been! Even conservative, property-minded men have been heard to express anarchistic



and irresponsible opinions when brought face to face with want and suffering for their families. If such people undergo so radical a change under economic adversity, what may we expect of those who live always on a precarious economic level? We have to admit, whether we like it or not, that moral idealism fades and moral inhibitions break down when security vanishes. We cannot be sure that this would not be the case with ourselves under the same circumstances. And when we recall how large a part of our population even in America, in prosperous times, live near to the danger line, with but a few weeks of unemployment between them and want, we realize how slight the moral defenses of society are. A considerable degree of security is essential to a well-governed life. The older economists held that only as men fall short of security will they put forth vigorous effort. They feared that the attainment of security would destroy the incentive to work. To-day we are more fearful of the paralysis and demoralization that come of continued failure to find security. Would not a just economic order make it possible for every one to have enough security to allow him to live and work happily and without that demoralizing fear that so often overpowers those who have families to support?

4. *The "Instinct of Workmanship"*: By this we mean the tendency to find satisfaction in excellence of performance, and the impulse to create something which our fellows will approve. If the creative activity gives expression to some inner personal urge the experience is the richer. A familiar example is seen in the pride of craftsmanship which a joiner or a wheelwright had in his work before the days of the machine. It is one way to "self-realization." Many idealists place great hope for a more satisfactory industrial order in the common impulse to excel in workmanship. It is a matter of common knowledge that large-scale machine production has robbed the craftsmen of a means of self-expression. Crafts have everywhere disappeared in the industrial revolution. The individual worker can no longer be identified with his product. He may handle only a small part of a finished article and then perhaps only for a few moments. Observing



this decay of craftsmanship, many are calling for a restoration of the era of the "craft guilds" and a corresponding simplification of life. The depression has increased interest in such proposals. Few students of modern industry, however, believe that we are going to move in that direction. The hands of the clock are not easily turned backward. More probably, we must find new ways of releasing the creative spirit that is in each one of us. Certainly, if the desire to create, to attain a high standard of workmanship, is deeply fixed in human nature, then the present economic order thwarts something elemental in the lives of the vast majority of men and women. This is a severe indictment, and one that must be met.

Here one cannot speak with assurance but certain possibilities suggest themselves. With the increase and the refinement of machine production we are turning over more and more to the "iron man" the merely automatic processes. This makes for human freedom. And with the almost inevitable increase in leisure due to increasing productivity of labor, and a corresponding increase in education for the use of leisure, men should have more and more scope for the pursuit of cultural values and of aims that are peculiarly their own. Here at least are possible roads to mastery of the machine.

5. *The Sporting Impulse*: It may seem strange to suggest that the "game" aspect of life is important from the ethical point of view, but surely nothing is more broadly or more persistently characteristic of humanity than the desire to play a game. The element of uncertainty as to outcome, the challenge to ever-renewed effort is basic to eager, wholesome living. How does society utilize this game impulse to-day? Largely by means of a perpetual gamble that carries a few to success in the competition while the masses go down. This is what happened in the stock market crash. Yet there seems to be something in this game that is akin to the great intellectual and spiritual adventures that have progressively emancipated mankind from disease and ignorance, and enriched its culture. Can our society capitalize this sporting impulse,



this quest of adventure, in a way consonant with social progress and a more abundant life?

This suggestion is not to be confused with what is often called "competition in service." The latter is rather a doubtful combination of words. What is meant here is that the element of adventure, of personal commitment to an enterprise of uncertain but promising outcome, belongs alike to sport, to business, and to the highest type of human service. What appears ugly when it operates on a low level may be splendid when it calls higher aspirations into play.

6. *Coöperation or "Mutual Aid"*: Here we have the most social of all human tendencies and one which seems to be as "native" as the more self-regarding impulses that we have noted. To-day life presents some startling contradictions in that men strive relentlessly and compete cruelly for status and supremacy and then, in situations involving great human suffering and catastrophe, often behave magnificently toward their fellows! Witness the courageous behavior of seamen in an ocean tragedy. Is the one characteristic more elemental than the other? The extraordinary demonstrations of co-operation that have come to light here and there in industry in recent years, some of which were referred to in Chapter IV, are mostly due to the discovery of how much men really want to live as brothers and how far they will contrive to do so when given a real opportunity. For the most part life is now so organized that one must choose between self-regarding motives and starvation or failure. The world is geared up to self-interest. Our "rugged individualism" teaches us that it must be so. But evidences are multiplying that men do not clutch at each other's throats because they enjoy doing it; but rather that they want a chance to live and to help live.

#### ASSETS AND LIABILITIES

We have considered briefly six types of incentive. Acquisitiveness appears to have been over-rated as a social drive, and in a reconstructed economic order would have to be largely replaced. Prestige involves a crude competition that



is reckless of real values. In part it must be replaced by other means of self-expression; in part it must be smothered, not by repressive discipline, but by doing away with the crude social instruments of display. Security is a basic need and must be satisfied. Creative workmanship is one of the true means of emancipation from the deadly grip of mechanical processes, and as such becomes a major social goal. The sporting impulse may become a prime asset of citizenship and statesmanship. But the climax of social hope is in mutual aid expressing itself as an elemental force in organized coöperation.

All this means that human nature is neither good nor bad, but potentially either. The human equipment of motives and propensities is like an organ keyboard on which can be played either warring chords or a symphony. We now have reason to believe that those impulses which are most deeply rooted may be given social expression, and that the cruder urges may be displaced by others that work toward worthier ends. But this change can come about only when the human spirit becomes centered upon some commanding purpose. And this is what the redemption of human nature means.



## CHAPTER IX

### OBJECTIVES IN ECONOMIC RECONSTRUCTION

THE presentation of the economic situation in which we find ourselves has revealed many points at which the economic system is failing to provide the opportunity for the good life for many of our citizens. Tremendous natural resources, great ingenuity, and rapidly increasing technical skill make possible for the first time in history an adequate livelihood for all; and raise the hope that as productivity increases a margin can be realized out of which the higher forms of human culture can be still further developed. Before we turn to the consideration of concrete proposals for the remaking of our economic life to that end, it is necessary to get clearly in mind what are the objectives toward which such a reconstruction should be working. At this point it is in order to make more explicit the implications of Christianity which have been implicit in the discussion thus far. Science has provided us with the tools: we look to Christianity to define those values and purposes which shall determine the use of the tools. As pointed out in the Introduction, certain fundamental assumptions about the purpose of human life individually and collectively are an essential part of the Christian religion. Applied to our economic institutions, those values should provide us with a test by which to determine to what extent they are good or bad, whether they should be improved, and if so toward what ends our efforts should be directed.

One of the surest guideposts provided by Christianity in this complex situation is the simple but radical demand that every one shall have as full and abundant a life as the resources of society make possible. Since we are all members of one family, we cannot tolerate those inequalities which



mean poverty for any part of the people so long as resources are available to prevent it.

This, however, is too indefinite an objective to take us far. We need to define more specifically the objectives which, if attained, will translate into actuality the ideal of an abundant life for all. Many of those objectives have to do with the kind of life which should be attainable by individuals within an economic system: still others point to the sort of institutions or the type of economic order which must be wrought out if the kind of life that is desired is to be made possible.

It is not possible or desirable here to indulge in utopian fantasies on the heights to which the human race may rise. We need, however, to get clearly in mind those goals which are attainable with our present command of resources or toward which sufficient progress can be made within the next generation or so, in order to make them worth working for.

#### A HIGHER STANDARD OF LIVING

I Of these, one of the most obvious and most essential is a standard of living for all which will provide at least a minimum of health and decency. As we have seen in previous chapters, our present system leaves large numbers of people below the line of a decent subsistence wage and provides for relatively few a steady income which reaches even an acceptable minimum level. With our resources, actual and potential, the assurance of a minimum income for all should be a first step.

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b This requires, first of all, secure and regular employment for the working population as a whole, and, for those who are temporarily out of work or permanently disabled, some provision for an adequate income from social sources to relieve the crushing load of anxiety and distress which so many workers now carry.

This responsibility for seeing that work is available for all who need it should, of course, be extended to all. No discrimination on the basis of sex, race, or creed should be allowed to enter into employment relations either in the securing of jobs or in the conditions under which people work. The present social attitudes which encourage discrimination



against the foreign-born, in some communities, against racial groups in others, and against women in certain occupations, run counter to the claims of common justice and to the precepts of Christianity.

Not only the elemental right to work but also certain conditions necessary to a satisfactory working life should be included among our objectives. Such conditions include an opportunity for more years in school, and vocational guidance and adjustment for young people and for adults, in order that an individual may find the fullest possible use for his powers. Though it may not be possible in the near future in our machine civilization to provide creative work for large numbers of persons, vocational training and adjustment which bring together individual capacities and social needs can accomplish much.

Within the working hours of the day, the Christian ideal for each individual requires the best conditions of safety and sanitation that can be provided by modern science. It demands also that hours of work shall not be so long as to preclude leisure for pursuit of the spiritual values of life. It demands that wages be increased as productivity increases, in order that the workers may continuously be reaping the benefit of scientific advance.

Among the other requirements for a satisfactory work life is the possibility of sharing in the control of conditions of work. At present this is best accomplished through collective bargaining. Trade unions are essential not only for the protection of workers but also because they provide a degree of participation in the determination of conditions that brings self-respect and social responsibility. We have already seen the possibility of changing attitudes through the substitution of social incentives for those that are self-centered. If industrial workers were consciously engaged in a coöperative enterprise instead of, as almost entirely at present, purely for money returns from an enterprise in whose control they have no part, industry might be remade.

All of man's life, however, is not spent at work. A necessary requirement for the good life which Christianity asks for each individual is an adequate education for every child,



and an opportunity to continue education as long as his individual capacities justify.

Since it is well known how much physical surroundings affect the possibility for a better life, our objectives include better housing for all our population, the elimination of slum areas, and the development of pleasant and healthful housing for all sections of the population.

Many more concrete objectives in the realm of physical necessities still lacking to large numbers of our population will readily come to mind. Man does not live by bread alone, however; and the less material aspects of his life are often more essential to his happiness than physical necessities. As J. M. Keynes has pointed out recently in his *Essays in Persuasion* (New York, Harcourt, Brace and Company, 1932), the economic problem of providing such necessities bids fair to be solved within a century. We have now the means if we can only acquire the organization to use them properly. Beyond that, however, looms the equally urgent problem of securing the highest use of leisure and of personal resources. Our society in the future may be confronted with a group of partly unemployed workers nearly the size of our entire industrial population; and it will require much consideration and planning if that leisure is to be used for the creation of the highest types of human beings and of human culture.

- Our objectives must therefore include a raising of the level
- of taste and a type of education that will create a desire for
- the best in our social heritage rather than the cheapest and
- least valuable. Art, music, the drama, literature, the art of
- human relations, outdoor activity, creative expression in many forms can be made an outlet for the powers released with the ending of the age-old economic struggle for bread. But in order to avoid a period of waste, confusion, and vulgarity religious forces must envisage more clearly the highest experiences in life which man can achieve and must set themselves to encourage this achievement.

An array of objectives which includes not only the necessities for all but an expansion of human living at a high level seems to carry us far from the sorry spectacle of the



world to-day. It forces upon us the realization that before any such state can be attained there must be a remaking of many of our social and economic institutions. It means ultimately a new social order which will better provide the means for the good life for individuals. Christianity proceeds from the concern for the individual to a concern for the social institutions which surround and condition the individual life. Chief among these are the economic institutions that were described in the earlier chapters. A complete platform of such social objectives would require more space than the present volume can include. The specifications that follow are suggestive only.

The present depression has called in question the effectiveness of many of the economic institutions described in the first three chapters. Concrete proposals for modifying them are to be considered in the chapters that follow. What is chiefly important here is to point out the directions in which modification may be sought.

#### DEVELOPMENT OF NEW MOTIVES

One of the most fundamental criticisms of our system is that the profit motive is dominant and that we rely upon the pursuit of self-interest by each individual as a means of attaining the good of all. Christian ethics has long questioned the approval given to selfish and acquisitive motives in modern business. There is a certain unreality about teaching that love should be the guiding principle of individual and social life and then exempting from its control the entire realm of economic forces, where competition and the desire for money and power are allowed a nearly unquestioned sway. We need to submit to penetrating analysis the dominant motives encouraged by our economic life and to face the conflict between the requirements of the teaching of Jesus and the facts of our economic life.

#### REEXAMINATION OF THE PRINCIPLE OF COMPETITION

Closely related to profit motivation is the belief in competition as the best guide to production. In addition to ethical



questions regarding competition and the practices that grow from it, quite as urgent a question arises as to the effectiveness of competition to produce the goods we need in the best way. As a matter of fact, great modifications in the practice of competition have arisen with the growth of monopolistic concerns, and control in the public interest has in part been substituted for the restraining influence of competition. The value which competition had as a force producing greater efficiency and lower prices has therefore diminished. But where it operates unimpeded competition has been seen to result in over-developed industries such as coal or textiles, in the speculative mania of our recent prosperity, in the depressed state of our agriculture, and in so many other undesirable ways that its efficacy as the drive for our complex economic machine is becoming a much discussed question. These facts force us to consider the possibility of finding other incentives and methods in business enterprise that may advance us farther than competition has done toward adequate and balanced production of goods made under satisfactory conditions and marketed at reasonable cost to the consumer. If the profit motive and competition can provide those goods better than any other arrangement we can discover they are likely to survive. If not, some other system of planned production will probably come into existence. In later chapters some concrete possibilities of this sort will be discussed.

One of the results of our economic institutions, as was shown in Chapter III, is a great inequality in the distribution of wealth. Here again the Christian approaches the question from two angles. First, is the present situation consistent with Christian attitudes of justice to all men; and, secondly, does it work better on the whole than any other economic order that could be devised? The first question raises fundamental issues of social justice which need careful consideration. At the present moment our distribution of wealth is under indictment from many economists not merely as unfair and inhuman but because it works in such a way as to stop the wheels of industry periodically in serious crises and to keep them in the best times running at an inefficient level. It



seems clear that our present productive and distributive equipment cannot be kept running unless there is a wider distribution of purchasing power. It follows therefore that unless the balance between the amount available for production and that available for consumption can be better arranged we cannot keep industry going or keep the population provided with necessities. One of our objectives, therefore, becomes a distribution of wealth and income that will serve to keep purchasing power more nearly balanced with producing capacity and human need. "Starvation in the midst of plenty" has become a commonly recognized paradox of our present depression. One of the ways out of that dilemma is a distribution of purchasing power to provide the under-consuming population with the means to satisfy their normal needs. Such a redistribution would bring us nearer to the Christian ideal of justice for all men.

#### A GREATER DEGREE OF PUBLIC CONTROL

The competitive system dominated by profit as a motivating principle is dependent also upon the private ownership of all the means of production and distribution. Our factories, mines, railroads, and banking systems are privately owned and to a large extent privately controlled. Our natural resources—oil, forests, coal and other minerals—are in the hands of private interests who use them in whatever way will produce the largest profit. There is no clear moral judgment in the Christian community to-day with reference to the institution of private property. Those who are ready to follow Walter Rauschenbusch in his Christian socialism in this matter are doubtless few. Uncertainty prevails within the Church as well as outside it as to the extent to which private property as an institution has within itself the power to correct its own evils. Of late those who criticize it as fundamentally unsound have apparently increased in numbers. On the other hand, the way in which the masses of our people have clung to their conservatism is one of the outstanding features of the depression. Nevertheless a vital issue arises as to the extent of the area of economic life which should continue to be regarded as strictly private. The



courts now recognize a class of businesses which are "affected with a public interest" and therefore subject to a measure of public control. In the present situation, therefore, one of our emerging objectives is a clearer principle of definition of "private" and "public" as applied to business and industry. Could we not agree that natural resources and basic industries belong in a different category from enterprises in which only a limited portion of the population has any concern? One of the "Social Ideals of the Churches" is: "A new emphasis upon the application of Christian principles to the acquisition and use of property, and for the most equitable division of the product of industry that can ultimately be devised." To give force to this ideal in the realm of public policy is surely one of the objectives of Christian economic reconstruction.

#### A COÖPERATIVE INTERNATIONAL ECONOMIC LIFE

A fourth objective which needs to be kept in mind in discussing economic proposals grows out of the development of our economic life on a world scale. With increased communication, international trade has become a necessity for every country. The interdependence of nations is obvious in every meal we eat and almost every object we pick up. As pointed out in an earlier chapter, we in America have large interests in foreign trade and cannot thrive unless there is a constant free flow of goods and services between our country and others.

As Christians we should welcome such developments as one more link in the increasing unity of mankind. Trade, however, is only potentially a means of coöperation. It is also one of the most fruitful sources of friction and antagonism between races and nations. Much of the antagonism arises out of the competitive struggle for raw materials and markets and the exploitation of less advanced people by the industrialized nations. If we are to avoid wars and to develop the resources of the earth to the fullest extent and for the good of all, a new attitude in international relations is necessary. Justice and consideration must take the place of the



exploitation of weaker people and coöperation must replace competition in the relations of all countries. To promote this requires that we envisage the world as eventually a single economic unit in which trade will flow back and forth to mutual advantage as it does within our national boundaries. Such an ideal requires that the people of the earth produce those things for which their resources and abilities are best suited and exchange them with others without exploitation or enmity. Carried to its logical conclusion, this ideal doubtless requires also freedom of population movements unimpeded by immigration barriers. Whether such a condition of international coöperation can be attained under a competitive system is one of the most urgent questions before the world to-day.

#### SUMMARY

Among the many social guides to action in the present situation which might be outlined, four have been suggested:

- (1) That new motives beside those of money making and self-interest be developed in order that we may develop a system more consistent with Christian ideals.
- (2) That competition as the major controlling principle of our economic life be reëxamined, and an attempt be made to find another principle that will admit of a more coöperative spirit among individuals and among groups and will allow room for rational planning in our economic life.
- (3) That our natural resources and economic institutions be considered as existing for the public good and such plans for ownership and control be developed as will lead to the best use in the interests of all.
- (4) That coöperative economic life be developed on an international scale both because of the need for established peaceful relations between nations and because our economic interdependence demands it for the fullest development of the world's resources.

With these in mind as objectives it is desirable to turn to concrete proposals for securing them.



## CHAPTER X

### SOME RADICAL PROPOSALS

It is the purpose of this chapter to review some of the major schemes of social-economic reconstruction that have been put forward at different times in the world's history. These proposals are sketched here as a background for consideration of immediate steps toward reorganization of our economic life that will be suggested in the succeeding chapters.

Down through the centuries men have dreamed of an ideal social order, and many utopias, or plans for perfect human societies, have been worked out in great detail. In his *History of Socialist Thought* (New York, Thomas Y. Crowell Company, 1927), Dr. Harry W. Laidler describes under "Utopian Socialism and Its Precursors" the principles of the social prophets, Amos, Hosea, Isaiah and others, and the social teachings of Jesus as among the earliest prophecies of an ideal society. Professor Nunn points out<sup>1</sup> that the principal elaborate utopias have been written only during periods of unrest when social conditions were bad and current social systems disintegrating. Plato's *Republic* appeared during the declining days of Athens. Sir Thomas More's *Utopia*, Campanella's *City of the Sun*, Bacon's *New Atlantis*, Harrington's *Oceana*, Rousseau's *Social Contract* were written when contemporary institutions were disintegrating. These utopias were indictments of unjust social conditions then current as well as dreams of a perfect world.

Later utopian schemes, following the French Revolution, went beyond speculation on the ideal society to proposals for attaining it. Among the formulators of these proposals were

<sup>1</sup> Spahr, W. E., Editor, *Economic Principles and Problems*, Vol. II, Chapter XXXV, *op. cit.*



Saint-Simon, Fourier, Cabet, and Blanc in France; Robert Owen in England; and Albert Brisbane in America. Actual experiments were inaugurated by establishing colonies or "realistic utopias" to demonstrate the practicability of some of the proposed plans. Among the better known of these actual utopian colonies were the New Harmony Colony in Indiana, founded by Owen in 1825; the Brook Farm Phalanx, in West Roxbury, Massachusetts, founded by George Ripley and others in 1842; the Oneida Community in Oneida, New York, founded by the Rev. John Humphrey Noyes in 1848; and the Icarian colony in Nauvoo, Illinois, founded by Cabet in 1849. The Brook Farm Phalanx attracted the interest and support of Horace Greeley, James Russell Lowell, John Greenleaf Whittier, Ralph Waldo Emerson, Nathaniel Hawthorne, Charles A. Dana, and others.<sup>2</sup>

These colonies all eventually failed or ceased to exist in their original and distinctive form, illustrating the impracticability of any attempt to change the world by withdrawing from it. However, according to students of the subject, the utopian colonies formed an important link between the pure utopianism of More and present-day socialist theory and practice.

The Christian Socialist movement, particularly in England under Frederick D. Maurice and Charles Kingsley, made an important contribution by calling attention to terrible industrial conditions, especially in the clothing industry, and by their bold attack on the Manchester School of *laissez-faire* economics. The Christian Socialists also established coöperative workshops (producers' coöperatives) which, however, failed as have almost all producers' coöperatives.<sup>3</sup> The sincerity and courage of the Christian Socialists also had a profound influence on English labor and (together with the

<sup>2</sup> Spahr, W. E., Editor, *Economic Principles and Problems*, Vol. II, p. 567.

<sup>3</sup> See Laidler, H. W., *History of Socialist Thought*, p. 311, quoting Bernstein, who gives the principal reasons for the failure of producers' coöperatives as (a) the tendency of an association of producers and sellers to become exclusive and individualistic and profit-seeking; (b) difficulties in discipline and control, and the impracticability of a manager being "an employe of those he manages."



sympathetic contact between the Wesleyan movement and the workers) largely accounts for the absence of anti-religious bias in the English labor and socialist movements, which is in sharp contrast to the atheistic or at least anti-church attitudes of Continental socialism.

#### SOCIALISM—GENERAL CHARACTERISTICS

Before proceeding to consideration of Marxian socialism and later developments, it will be well to quote a general definition of socialism. Over against the distinctive characteristics of capitalism—private ownership of the means of production, the profit system, the wage system, and free competition, the socialist contends that "land, natural resources and the principal means of production and distribution should be socially owned and democratically managed, so that production should be for public use rather than for private profit." <sup>4</sup> In order to understand socialism to-day it is necessary to distinguish between Marxism; evolutionary socialism; revolutionary communism; syndicalism; guild socialism; revisionism; and Fabianism and the program of the British Labor Party.

It is important to bear in mind that socialism has now moved out of the realm of pure theory and entered the stage of actual experiment in various countries. As Dr. Laidler points out, "socialism, in one form or another, is one of the most potent influences in the political and economic life of the world. Since the World War, moderate socialists have served at intervals as presidents or as premiers of many important countries of Europe—Ebert in Germany, Adler in Austria, MacDonald in Great Britain, Stauning in Denmark, Branting in Sweden among them. Socialists of the left, or, more truly, communists now occupy the chief offices in Soviet Russia, covering one-sixth of the territory of the globe, while in many other countries socialism has become a vital parliamentary force." <sup>5</sup> To the extent to which socialism enters into actual control in various places it will become

<sup>4</sup> Laidler, H. W., *History of Socialist Thought*, p. 564, quoting Norman Thomas.

<sup>5</sup> Laidler, H. W., *History of Socialist Thought*, p. vi.



possible to make factual comparisons with its results and those of capitalism.

### MARXISM

The *Communist Manifesto*, issued by Karl Marx and Friedrich Engels in 1848, together with *Das Kapital*, published in part by Marx in 1867, form "the Bible of socialism." Three distinctive doctrines are advanced—the materialistic (or economic) interpretation of history, the theory of surplus value, and the inevitability of class warfare. The economic interpretation of history asserts that all political and social institutions are the result of economic conditions and circumstances, but that economic conditions change so much faster than social and political institutions that serious disharmony results and causes periodic revolutions which rebuild social institutions more in harmony with the changed conditions.

Marx's surplus value theory and the inevitability of class war are succinctly stated by Professor Nunn as follows:

"Now to Marx, the worker alone produced wealth (he considered land a passive agent and capital as produced by labor), but he does not receive the full value of his labor; he actually received only enough for meager subsistence and the propagation of his race. The difference is a surplus value which, due to existing legal arrangements, goes to the capitalist in the form of rent, interest, and profit. Thus surplus value 'will depend on the proportion between that part of the working day necessary to produce the value of the laboring power and the surplus time or surplus labor performed for the capitalist.' In the opinion of Marx, the aim of the capitalists is to increase this surplus by lowering wages, demanding longer hours of work, etc. This, he thought, the capitalists would be able to do because of their steadily increasing power. But they would not be able to consume this increased wealth because of the smallness of their numbers, and hence much of it would be spent for production goods. The workers also would be unable to consume the extra amounts produced because of their lack of purchasing power. Periodic depressions would result and



these would be marked by the oversupply of goods held as the private property of a few and by misery on the part of the masses. Thus, to Marx, the capitalistic system has within itself the seeds of its own destruction; for the masses, who have nothing to lose but their chains, will secure control of the capitalistic state by force, and the first step in the transition from capitalism to socialism will begin."<sup>6</sup>

The revolution of 1848 in France and subsequent revolutions or constitutional changes in Austria, Germany, Switzerland, and Italy registered gains in democracy but did not result in proletarian control of governments along Marxian lines. The First International is the name given to the International Working Men's Association, which met for the first time in London in 1864 and constituted the first international organization of workers. Marx considered the First International as a powerful agency paving the way to revolution in various countries. However, it ceased to exist about 1876, after the Franco-Prussian War and the downfall of the Paris Commune. With the fall of the First International, says Dr. Laidler, "the working class movement as a whole rid itself of the idea of progress through secret conspiracies and the *coup d'état* methods. The idea of violent change did not gain any great number of adherents again until the Russian Revolution over half a century later."<sup>7</sup>

"Karl Marx," says Professor Laski, "is an epoch in the history of social philosophy . . . he found communism a chaos, and left it a movement."<sup>8</sup>

#### REVALUATIONS AND REVISIONS OF SOCIALISM

The period between the death of Marx (1883) and the World War saw the development of many schools of socialist thought, revision, revaluations, and reform in socialist tactics. The revisionists in Germany, led by Eduard Bernstein, took issue with Marx in regard to his prediction of

<sup>6</sup> Spahr, W. E., Editor, *Economic Principles and Problems*, Vol. II, pp. 569-570. 1932, Ray Long & Richard R. Smith, Inc., New York.

<sup>7</sup> Laidler, H. W., *History of Socialist Thought*, p. 194.

<sup>8</sup> Laski, Harold J., *Communism*. New York, Henry Holt and Company, 1927.



the downfall of capitalism, the increasing misery of labor, and the sharpness of class conflict. This school emphasized the extension of the suffrage, and democratic and parliamentary procedure, and these methods and policies came more and more to characterize the Social-Democratic party of Germany.

The syndicalists in France, under the influence of Proudhon, held to the Marxian theory of class warfare but discounted entirely the use of political means (as does anarchism, of which Proudhon was an exponent). The syndicalists depend upon industrial action through "one big union," culminating perhaps in the general strike, to capture the economic system. The Industrial Workers of the World in the United States follow this syndicalist philosophy.

The Fabians in England, on the other hand, aimed at establishing socialism through political action and preparing the ground for political action by wide education, not only of workers but of the general public, through lectures, books, and pamphleteering. The Fabians are opportunists, believing in gradual advance in social legislation, municipal socialism, and parliamentary power. Such well-known persons as George Bernard Shaw, H. G. Wells, Sidney and Beatrice Webb, and J. Ramsay MacDonald, have been actively associated with the society, which did much to prepare the way for the growth of the British Labor Party. The latter came into being as a result of joint action by the Trade Union Congress and socialist groups and has stood for social legislation such as the minimum wage, unemployment insurance, and the gradual socialization of industry through the nationalization of mines, railways, and public utilities, and the extension of social services. Although the British Labor Party has twice taken charge of the government (1923 and 1929), at no time has it enjoyed a working majority in the House of Commons and it has therefore been unable to carry out the more radical parts of its program. The party was severely criticized by the Independent Labor Party (its left wing) and socialists in other countries for its compromises while in office.



As indicated at the beginning of this chapter, the socialists have also attained considerable parliamentary strength in Austria, Belgium and Sweden, where in 1928 their voting strength aggregated 40 per cent of these parliaments; in Germany and Norway, with 30 per cent of the votes; and in Esthonia, Finland, Great Britain, Holland, and Switzerland with more than 20 per cent.<sup>9</sup> This strength has resulted in improved labor laws and provisions for social insurance, although in none of these lands have the socialists achieved sufficient control to inaugurate a complete socialist program.

There remain to be mentioned the guild socialists, who desire to combine a socialist society with the ideals of creative work of the mediæval guild. They emphasize self-government in industry rather than state control. In a sense guild socialism attempts to reconcile syndicalism, with its insistence on control of production by the workers in each industry, with socialism. It envisages equal control by the workers through a guild congress, and the consumers through a political parliament. G. D. H. Cole, R. H. Tawney, and S. G. Hobson are among the ablest exponents of guild socialism. The movement is almost entirely confined to intellectuals and its chief contribution lies in the realm of theory and analysis. It is comparatively quiescent at the present time.

#### THE SECOND INTERNATIONAL—SOCIALISM

The "Second International" is the name given to the organization of evolutionary socialists, first formed in 1889, and reunited in 1923, after having been badly split by the World War, in the Labor and Socialist International (or Socialist International). The Second International stresses peaceful methods, educational propaganda, labor organization, and the use of the ballot box to achieve socialism. Under the Second International the socialist party of each country is autonomous.

The American Socialist Party belongs to the Second International and stands for typical evolutionary socialism in con-

<sup>9</sup> See *Economic Principles and Problems*, edited by W. E. Spahr, Vol. II, p. 578.



tent and method. The American Socialist Party platform of 1932 calls for social insurance, higher income and inheritance taxes in the higher brackets, public ownership and democratic control of basic industries, socialization of the credit and currency system, and for a unified government-owned banking corporation. It stresses world peace and stands for disarmament and cancellation of war debts.

### THE THIRD INTERNATIONAL—COMMUNISM

Over against the tactics and organization of the socialists (Second International) stand the tactics and organization of the communists, who are welded together in the Third International, which was formed at Moscow in 1919 under the leadership of the Bolsheviks.

The communists, whose experiment in control in Russia will be described shortly, differ radically from the socialists, not so much as to the ultimate aim of establishing a completely socialist society as in the fact that the communists believe in the use of force, armed struggle, civil war and dictatorship to accomplish their ends, while the socialists rely upon the slower but, as they think, sounder methods of education, industrial organization, and the ballot. The communists, looking upon the industrial struggle as war, believe in the justifiability for revolutionary ends of the typical war measures practised by all nations when at war, including false propaganda where they believe untruths will further the cause of industrial revolution. The tactics of the communists in the United States have been to "bore from within" the regular labor unions, but being unable to capture them, they have now set up many "dual unions" (competing with the regular trade union and relief committees), organizations to conduct strikes especially in the textile, coal and clothing industries. The communist looks upon a strike as worth while in itself whether or not it accomplishes concrete results, in that it can be made to serve as an educational preparation for the revolution. Measured by the voting strength or membership in the (communist) Workers' Party, the communist movement in the United States is



small. The favorite communist tactics, however, which consist of public demonstrations, marches, and dramatic protest meetings and publicity give the impression of greater strength.

Unlike the Second International (socialist) the Third International (communist) exercises absolute authority over communists in all countries, who must take their orders from Moscow. The Third International should be distinguished, however, from the Russian Soviet Government and the Russian Communist Party, although they are all controlled and their policies are shaped by the same leaders.

#### COMMUNISM IN SOVIET RUSSIA

Space is lacking to trace the development of communism in Soviet Russia through the stages of military communism with its Red Terror and the New Economic Policy with its emphasis on the methods of state capitalism, as Lenin called it. The present régime is best described in terms of the Five Year Plan. The Plan was launched in 1929. It called for enormous increases in production, especially in heavy industry and agriculture. Definite goals were set after having been worked out by a planning board of engineers. Mr. Chamberlin, a careful and competent student of the Russian situation, summarizes the results of the Plan as follows:

"The drawing of a quarter of the peasant homesteads into collective farms and the obtaining of substantially improved crop yields of grain, cotton, and sugar beets, mainly as a result of the widespread introduction of state and collective farming.

"The growth at the rate of 24 or 25 per cent a year of the output of the state industries, combined with the progress and, in some cases, the completion, of some huge and many medium-sized industrial and mining plants.

"The abolition of nonpolitical unemployment.

"On the negative side the writer would set down, again in the order of relative importance, the following developments:

"The deterioration of living standards, especially in the



towns, as a result of the diminished food supply and the acute shortage of many manufactured goods.

"The failure of qualitative improvements in industry to match quantitative gains, and the failure in some cases, of various branches of economic life to keep in step with each other.

"The heavy blow which the cattle and poultry raising and dairying branches of agriculture have received as a result of the widespread destruction of livestock.

"If one looks from the past to the future one feels reasonably certain that the quantitative goals of the Five Year Plan will, in the great majority of cases, be reached and in some cases exceeded by the end of 1932, unless there is some quite unforeseen internal breakdown or external interruption. In the light of past experiences one is apt to be more doubtful about the attainability, within two years, of the objectives of the Five Year Plan as regards improved quality of output and a standard of living that should be appreciably better than that of 1927-1928."<sup>10</sup>

In addition to advances in industrial production, the Soviet Union has adopted much advanced social legislation, including shorter hours; vacations with pay for industrial workers; insurance, covering practically all workers, against sickness or accidents; old age pensions, birth, burial, and unemployment allowances and payments to dependent members of families of deceased wage earners. Women industrial workers are given two months' rest with pay before and after the birth of a child. The industries bear all costs for social insurance, which amounted to about 13 per cent of the payroll in 1927. The administration and enforcement of labor laws are carried out by the labor unions.<sup>11</sup>

Enormous advances have been made in popular education and in the reduction of illiteracy. One of the main purposes of education is to indoctrinate the children with the ideals of communism.

<sup>10</sup> Chamberlin, William Henry, *The Soviet Planned Economic Order*. Boston, World Peace Foundation, 1931, pp. 144-146.

<sup>11</sup> *Economic Principles and Problems*, edited by W. E. Spahr, Vol. II, p. 587.



*Religion:* The communists are avowed atheists. This fact may be partly explained by the alignment of the old Russian church with the autocracy and oppression under the Czar's régime, and its lack of interest in social problems or the welfare of the masses; it is also due, however, to a deep hostility in the communist philosophy to any system of belief which distracts attention from the economic scene. In the words of the communist slogan, "Religion is the opiate of the people." But it cannot escape any careful observer that communism is in a sense itself a religion, with its missionary zeal, its almost fanatical faith in an idea, and the willingness of its adherents to suffer martyrdom for the cause. Churches in Russia now exercise a limited freedom. Many of them are open for worship, but they are not allowed to give public religious instruction to children. Ministers of religion suffer serious disabilities as citizens. Definite anti-religious instruction and propaganda are carried on by the communists.

*Labor Unions:* Ninety per cent of the workers in Russian industries are reported to be members of labor unions. Representatives of the unions sit on all the councils of the Soviet government. They act as a partial check on the bureaucracy of the state in the management of industries, help to protect the workers' interests and serve to represent industrial workers as distinguished from agricultural workers. The unions formerly had a responsibility for factory management when this was done through a committee, but for the sake of efficiency factory management is now under one-man control. The manager may be a communist workman, in which case he has a technician as assistant; or he may be a technician, in which case he has a workman as assistant.<sup>12</sup>

*Civil Liberties:* During the period of military communism, there may be said to have been no civil liberties in Russia. "Since the civil war communists have continued a strict censorship over the press and have suppressed the anti-bolshevik press. They have also refused to permit the function of any other than the Communist Party in the political life of the

<sup>12</sup> Laidler, H. W., *History of Socialist Thought*, p. 510.



country."<sup>12</sup> The publication of books and pamphlets is also subject to censorship.

*Control:* Although all citizens above eighteen years of age may vote (except members of the clergy, employers of labor for profit, middlemen and a few other classes), control of the country rests virtually with the Communist Party (which is the only legal party), the membership of which is only about 2,000,000 out of a population of 161,000,000. The Political Bureau (or executive committee) of the Communist Party controls every governmental policy. Thus, the Secretary-General of the Political Bureau, Joseph Stalin, is dictator of the Russian government, although he holds no official government office. The strictness of party discipline, and intolerance of any opposition were illustrated by the expulsion from the party and exile of Leon Trotsky and his sympathizers. It should be stated that one reason for the smallness of the Communist Party is the self-sacrifice required of members, who are pledged to hard work, absolute obedience, and strict limitation of personal income. The party somewhat resembles an ascetic monastic order.

The leaders declare their intention to make the government more democratic as it grows in strength and as the crises of early development are passed.

#### ANARCHISM

Exactly opposite to socialism and communism is the ideal of anarchism—a human society without government in any form. The anarchist regards the state as essentially an organ of force and coercion operating through courts, police, armies, and navies. He believes that an ideal society will evolve in which voluntary coöperation of all groups will become a sufficient basis for economic and social life. Mutual aid is the chief tenet of anarchism, but it holds that the equality which must precede coöperation cannot come until the present economic system is destroyed.

Anarchists are divided into non-violent, pacifist or "Christian anarchists," of whom Tolstoy was the leader, and revo-

<sup>12</sup> *Ibid.*, p. 513.



lutionary anarchists. The latter recognize violence or assassination as weapons in the class struggle. Revolutionary anarchists are probably in the majority. Even so, "violence is not the substance of anarchism but in reality is resorted to by practically all bodies to the degree in which their activities are suppressed and driven underground," says Professor Nunn, who adds that "the more abortive of such acts are usually committed by the lunatic fringe which attaches itself to every movement whether desiring the overthrow of, or the maintenance of, the *status quo*."<sup>14</sup>

#### FASCISM

Fascism, like communism, relies upon force and dictatorship to maintain the power of the government. But it represents quite an opposite philosophy. It contemplates the seizure of control by the "right" instead of by the "left." Numerous dictatorships have developed since the World War, notably in Hungary, Poland, and Italy. Italy, under Mussolini, is the chief example of the theory. The state is glorified as over against the individual. By force it compels efficiency in production, controls both labor and capital, and rules with an iron hand. Labor union representatives, for instance, are appointed by the government rather than elected by members of the unions. The Fascist Party, which seized control by non-parliamentary methods and set up the dictatorship, continues to rule through the Fascist Grand Council and the dictator (who, however, holds the official office of Premier). Members of the Chamber of Deputies are selected by the Council, and their names are submitted to the voters, who, however, may only accept or reject the list as a whole.

Those trained in the ideals of democracy find it hard to accept dictatorship, whether communist or fascist, but it is very well to note that in disturbed and chaotic conditions, especially when current political governments are futile and inept, men's minds turn with impatience to the short-cut of

<sup>14</sup> Spahr, W. E., Editor, *Economic Principles and Problems*, Vol. II, p. 606.



dictatorship—either left or right—to bring about relief, order, and progress.

### THE COÖPERATIVES

Following an unsuccessful strike at Rochedale, England, in 1844, a handful of weavers started a coöperative store on the basis of one vote for each stockholder regardless of the number of shares he may hold. Stock certificates bear a moderate, fixed interest. Goods are sold at market prices but each coöperator receives dividends in proportion to the value of his purchases over a given period. The tendency of this arrangement, if widely extended, would be to take the control of industry out of the hands of capitalists and place it in the hands of organized consumers, and this without political or labor union action. As a matter of fact, the movement has grown to a remarkable degree, especially in Great Britain (where in 1929 the membership of coöperative societies represented almost one-half the population), in Russia, Austria, Belgium, Germany, and the Scandinavian countries. Wholesale coöperatives also have been organized. Co-operative organizations own banks, and even factories, plantations, and steamship lines which produce and transport articles and foodstuffs for the coöperative stores. The consumers' coöperative movement has not spread very rapidly in the United States, owing perhaps to the competition of chain stores, to local prejudice, and to lack of solidarity among American workers. Coöperatives sometimes put too much stress on dividends, and they sometimes fail to provide adequate representation for workers they employ. But as a whole the movement has demonstrated the ability of consumer-workers to manage their affairs on a large scale and to the advantage of the community.



## CHAPTER XI

### THE BASIS OF ECONOMIC PLANNING

WE have considered the salient features of our economic system and noted the aspects of it that are productive of inequalities and of recurrent depression. We have compared the capitalist system under which we live with the outstanding proposals for radical reconstruction that are at present engaging the attention of the world. Our task is now to inquire where lies a road to immediate progress. We say "a" road rather than "the" road, first, because it would seem that only extreme dogmatism can insist that *one* way can, in our present state of scientific knowledge and experience, be put forward with certainty as superior to any other; secondly, because the writers are members of groups in which there is a wide range of honest opinion regarding ultimate forms of social and economic life; and thirdly, because the immediate steps to be taken are not dependent on a clear view of the ultimate goal. That is to say, the present situation is perhaps unique in American history in that radicals and conservatives alike—excluding those of the "stand pat" type—are pointing in the same general direction even though the distance they propose to go is a matter in grave dispute. It seems to be agreed among thoughtful, well-informed and unbiased people that some form of social planning is necessary, that in some measure individual initiative and control must give way to collective action in order to prevent our being swallowed up in chaos. This is not to say that there is unanimity on the point any more than there is on any proposal, for example, in the Social Ideals of the Churches. But among those to whom the churches have come to look for guidance in framing their social programs there is prob-



ably little difference of opinion as to the necessity of some increase in collective action and control.

This fact is of the utmost consequence, for it indicates the possibility of a measure of agreement on the immediate engineering aspects of a problem by those who differ in their philosophy. It holds out the hope that energy so often wasted in debate about ultimates may be intelligently used in experimentation in a given general direction. We may, under pressure of social emergency, move in the desired direction without any commitment as to how far we are going.

#### CHRISTIANITY AND COLLECTIVE ACTION

At the outset, we must ask what considerations there are that impel Christians in the direction of collective action. Surely it is not sufficient for Christian people as such to set down their views in purely economic terms. Mr. Walter Lippmann has criticized church leaders for making demands for changes in the management of industry and assigning economic reasons for their contentions. He does not mean, presumably, that there should be one economics for Christians and another for other people, but that religion may be expected to define values and to set goals upon those who are in charge of our economic arrangements. What, then, is the spiritual principle that impels toward more collective planning in the economic order?

For us as Christians this principle must be found in the ideal of mutual aid and the sharing of burdens which are both implicit and explicit in the Gospel. "Ye are brethren," Jesus said. "He that would be great among you, let him be your servant." Again and again in the New Testament, and in the Old Testament as well, the ideal is set forth of mutual aid, of interdependence. The early Christian Church was a fellowship. It has been called "the beloved community." The fact that at one stage of its history this community practised a communism of property does not, to be sure, furnish a precedent surely applicable to the present day, but it at least shows clearly how impossible to the minds of those early Christians would have been the present-day doctrine



of extreme economic individualism. The early Christians subordinated the concerns of the individual to the needs of the group. In this way they expressed the genius of their religion.

Thus the demand for collective action for the good of all arises out of the nature of the Christian religion, which is at heart hostile to any system that is founded on the private interest of the individual. We have seen how the traditional economic theory, still held and advocated by many business men—Christians among them—comes down to this: Let every man seek his own ends with all the freedom possible, and then the maximum of well-being for all will be realized. This is the *laissez-faire* idea. Christianity says, let every man minister to the needs of his fellows and in so doing he will attain his own highest good as well as theirs. Or, in Jesus' words, "Seek ye first the Kingdom of God and all these *things* shall be added unto you." That is to say, not all of the things you want but "the things ye have need of." The essentials of a good life, in other words, are produced by devotion to that spiritual society to which we belong, not by driving ahead in our private interest. Independently, then, of our political or economic creeds, as Christians we cannot be expected to subscribe to the traditional theory of economic individualism.

It must be said, in fairness, that the business community to-day does not operate on a wholly individualistic basis. We have many laws that restrain the aggressiveness of the individual. But the point lies here: our attempts to restrain aggression in the economic world are based on the same principle as the rules of the boxing ring. One must not "hit below the belt." Even our exacting anti-trust laws are aimed at bringing everybody into active competition with everybody with whom he has a common business interest. If he is in the shoe business, for example, the law protects him from being crushed out by other shoe men by "unfair" means. He is kept "in the ring" by the powerful government referee. In other words, the competitive fight must go on. The irony of the situation appears when great industrialists who have



reached the point where they would like to substitute coöperation among themselves for some measure of this conventional competition find the law saying to them, "You shall not coöperate to the extent of restricting the area of battle," *i.e.*, the field of competition. Thus, the theory of social control is still the referee theory. The idea that society itself should plan for the welfare of its members has not gained much headway among us, save with reference to those who are frankly down and out. The conflict between this prevailing theory of economic relations and the Christian view of society would seem to be fundamental. What can Christians do about it?

#### THE RESPONSIBILITY OF CHRISTIAN PEOPLE

Perhaps it is worth while at this point to ask whether the Christian community as such has any responsibility for economic change. It is often contended that the responsibility of the Church and of the pulpit ends with the proclamation of an ideal. Sometimes, indeed, it seems more effective for the voice of religion to speak only in terms of moral compulsion, leaving to the scientists, the engineers, and the managers of business the task of making moral principles effective. But there is another view of the matter. Christianity itself may be conceived on its ethical side as an art of human relations and Christian education may be thought of as the process by which people learn to apply Christianity in practical affairs. In that case the function of religion becomes much more than the declaration of principles: it becomes the practical task of demonstrating their reality and effectiveness. In the realm of personal morality religion has always promulgated rules of conduct and has insisted on having a voice even in legislation, as in the case of liquor laws and divorce laws. Is there any inherent difference between the function of religion in the realm of individual morality and its function in relation to social morality?

The view here taken is that Christians as Christians and the Church as Church should play a part not only in enunciating principles but in the ordering of human relationships,



so that these principles may be built into the life of the world. Much confusion has resulted from the fact that almost everybody accepts the Golden Rule "in principle," but wisdom is lacking as to what it means in complex situations. Only when ideals and techniques are brought together for practical achievement do the ideals themselves acquire significance. It is for this reason that the churches have been impelled to take a stand on the great issues of international relations and industrial relations. Social planning is an ethical task.

Let us now inquire what are the prerequisites of planned progress toward a better economic order.

#### KNOWING THE FACTS

First of all is knowledge of the relevant facts. It is notoriously true that in our individualistic economic system we lack the data on which intelligent practice can be based. The widely discussed Swope Plan calls for the outlining of "methods of standard accounting and cost practice, standard forms of balance sheet and earning statement, etc.," and for the collection and distribution of "information on volume of business transacted, inventories of merchandise on hand, simplification and standardization of products, stabilization of prices, and all matters which may arise from time to time relating to the growth and development of industry and commerce in order to promote stabilization of employment and give the best service to the public."<sup>1</sup>

The need of authoritative economic information in this country is perhaps best illustrated by the confusion that obtained over the extent of unemployment during the early months of the depression. Absurdly low estimates were quoted as coming from government sources and the public was altogether misled as to the true situation. The difficulty in getting access to financial information concerning a corporation which is involved in a serious dispute with its employees has again and again exasperated civic and religious

<sup>1</sup> Frederick, J. George, Editor, *The Swope Plan*. New York, Business Bourse, 1931, p. 25.



leaders. The root difficulty is that business concerns everywhere jealously guard all information that could possibly give an advantage to competitors.

A secondary difficulty is that even when the will to share information and to plan coöperatively is present, the anti-trust laws hang like the sword of Damocles over business executives' heads. This is because it has been found in the past that passing around information with a view, not to social ends, but to the maintenance of high price levels may very effectually further monopolistic aims. Effective planning will probably require changes in the anti-trust laws. We need a free flow of information both within business and from business to the community, in order to further both voluntary coöperation and social control.

#### FORMULATING OBJECTIVES

The second requisite is an authoritative formulation of economic objectives in terms of production and distribution. In the war period we had our War Industries Board and our War Labor Policies Board and we accepted their guidance. Do we want social health and happiness in peace time as much as we wanted victory in the war? It is plain that we cannot successfully administer the economic affairs of 123,000,000 people in haphazard fashion any more than we could win the war that way.

An illustration of the problem is furnished by the Oklahoma Oil case recently decided by the U. S. Supreme Court. The court sustained a state law providing for control of the industry to the extent of prorating production for the purpose of preventing waste. The Supreme Court found that the right to take oil from the ground and acquire ownership of it "is subject to the reasonable exertion of the power of the state to prevent unnecessary loss, destruction, or waste." Perhaps the most interesting feature of the case is that it was brought before the court at the instance of large oil producers and defended by the producer whose property was involved. In other words, the industry invoked the state power to protect it from one of its own number in maintain-



ing a policy which was found to be unsound from the point of view both of the industry and of the public at large.

The problem of the social control of industry brings us at once face to face with the judicial concept, "affected with a public interest." When the courts decide that a business is of such peculiar and vital importance to the community as a whole that it is "affected with a public interest" it becomes subject to much more extensive control than strictly private business. The railroads are the most conspicuous example of such a business. There has been much agitation to have basic industries such as bituminous coal declared to belong to this class of businesses, but the resistance of our individualistic economic tradition is very great. As a matter of fact, leading coal operators in Western Pennsylvania within the past year have gone on record as favoring public regulation of the industry as a public utility. The United States Coal Commission of 1923 so recommended.

From the point of view of Christian ethics every business is "affected with a public interest." The phrase has, of course, a technical significance that is not identical with the ordinary meaning of the words. But it seems clear that judicial doctrine in America is developing gradually toward a point where the technical concept "affected with a public interest" becomes identical with what the plain man would mean by those words. In any case, the interpretation of this concept is at the heart of the problem of social-economic planning. No one can say whether effective planning of a fundamental sort will require constitutional changes. One of the most significant facts in our judicial history is the gradual change in interpretation and application of the federal Constitution in response to an evolving social philosophy. The subordination of the written instrument to changing needs of the people is a principle with which the names of Justices Holmes, Brandeis, and Cardozo are closely associated. The present trend is toward allowing greater powers of control to government and applying more restrictions to business and industry. The movement for economic planning is likely to accelerate this trend.



It will readily occur to any studious person that this problem might be worked out voluntarily by coöperative effort without the aid of courts or legislatures. On this point two things must be said. First, our present theory of legal regulation of business is built almost entirely on the assumption that any attempt at coöperation between businesses that ordinarily compete is in the nature of collusion and is to be prevented in the interest of maintaining free competition. This is the heritage of economic individualism for which the United States is noted. Here again, the idea is that the more free competition there is, the better for the community as a whole. The government pins its faith to the efficacy of individual conflict to maintain collective peace and prosperity. As noted earlier, many business heads, especially those who are advocating extensive economic planning, urge the modification of existing anti-trust laws in order to permit voluntary joint action in the direction of sounder economic functioning. (It is not suggested here that this is the only reason for opposition to these laws, but it is an important reason.) Until something is done in this direction business cannot go far on its own initiative in the matter of constructive planning.

The other point to be made here is that even with a maximum of voluntary action in the direction of planning on the part of business and industry in a country so vast as ours, and so complex in its development and organization, some central agency 'acting' with governmental authority would seem to be essential. This need is freely recognized by those who are advocating social-economic planning on a significant scale.

#### CONTROL OF CREDIT

The third requisite is an increased social control of credit expansion, without which periodic inflations seem bound to occur. Credit is the economic life blood of the nation. At this point the legal phase of the problem is less troublesome since the courts have clearly established the principle of public control of banking. What is needed is a more broadly



social concept of credit as a function of the whole community, since it is derived from the community. It seems clear that the banking function as the most basic of all business functions should be more fully controlled, so that credit could not be given in such hit-and-miss fashion as at present, incurring great risks to investors and inviting gross expansion and inflation at one time and causing wholesale bankruptcy at another.

Credit is social faith. The common notion in business is that we walk not by faith but by sight—by assurance based on tangible assets, on land and goods and stock certificates. In October, 1929, vast numbers of people found that things which look very real may not be real at all. Even the banks found that they had been lending money on the basis of fictitious values. Thus the things that are seen turn out to be less real than things that are not seen. Sound credit must be based not on the supposed durability of things but on the creative possibilities of coöperative human effort. It is the business of social engineering to remove obstacles from the path of such creative effort, and social credit should flow freely along that path. The limitation upon individuals or groups which social planning involves is not imposed as an end in itself but for the purpose of insuring a maximum of freedom and well-being to the people as a whole.

The significance of these general principles in terms of concrete problems and programs will be considered in the concluding chapter.



## CHAPTER XII

### BUILDING AN ECONOMIC PLAN

It is not our purpose to present and endorse a particular economic plan—not to offer a blue print, but to outline and illustrate an essential process. Most important of all, perhaps, is an understanding of the way in which particular social measures relating to different aspects of life, some of which have long been recognized as desirable, may be combined in a scheme of rational control that will still allow ample latitude for individual initiative.

What is the fundamental difficulty that the depression has brought to light? The preceding chapters have made the answer quite familiar. It is very widely agreed among economists that first among the basic causes of business contraction is a faulty distribution of purchasing power among our population. The reason why we appear to be overbuilt in capital and plant is, broadly speaking, that the consuming public has insufficient money to buy what is produced. We do not produce more than we need for an adequate national living standard, but we produce more than there is an effective money demand for. One hears often of a buyers' strike. The present situation might be more accurately described as a buyers' lockout!

In this situation the individual is left unprotected. Our basic Christian assumption of the sacredness of personality suffers violence from the time prices begin to go down and factory doors begin to close. But the violence begins, in reality, with the situation in which a person normally finds himself—that is, he is unable to maintain an adequate standard of life and at the same time to lay by a surplus for emergency and for old age. The effort to provide for the



future uses up resources which our business structure demands should be spent in consumption and, paradoxically, the individual in his effort to provide for the future simply swells the mounting capital equipment which causes periodic collapse. Maldistribution of purchasing power is at the root of the difficulty. Some one has suggested that our basic Christian principle now becomes the "sacredness of purchasing power."

This central economic need furnishes an organizing principle for a balanced program of social-economic planning. The way in which various social measures and movements relate themselves to this economic interest will be surprising to those who have not traced the relationship. Let us begin with the simple fact of an excess of labor power due to the factors already noted. What is to be done about it?

#### TAKE THE CHILDREN OUT OF INDUSTRY

The first and most obvious social requirement in this connection is the abolition of child labor. At a time when millions of men are out of work, we employ nearly three-quarters of a million children under sixteen years of age. By no possible construction of the demands of industry are these children needed in the factories or on the farms. Simple intelligence requires that they be kept in school. But this is not all. In addition to these children under sixteen, nearly another million and a half, sixteen and seventeen years of age, are at work, who are not needed. Furthermore, children of these ages will not be needed from this time on. They glut the labor market and the nation would be vastly better off if they were in school. Account would have to be taken, of course, of the many children of retarded development who would not profit by further schooling, but they are a small minority. More important is the fact that the educational program would need to be broadened and adapted much better to the needs of young people who will eventually find their way into business and industry. Vocational education on a large scale will be needed. This is a problem for the educators.

It would go without saying that such a reform cannot be



brought about in a year. The schools are not available, and if they were, the families of these children could not spare their earnings except as adjustments are made in the family income. But we are talking of the future, for which we should plan now.

#### RETIRE THE AGED

Still having the labor supply in mind, let us look at the other extreme of the age scale—at the men and women over sixty-five, of whom more than a million and a half are at work in America. Nobody wants to superannuate people arbitrarily and in wholesale fashion. But it will be accepted without argument that the major part of this group would gladly retire from heavy and exacting work if they were financially able to do so. Old age pensions would go far toward making this possible. Older workers stand in the way of younger men and women who need jobs. They have earned retirement by a lifetime of labor, but they have not been well enough rewarded to allow them to stop earning. A serious economic problem arises out of the fact that with the rising standard of living it takes larger incomes to live respectably, and consequently a small fortune is required to provide a living through investment. This fact, coupled with the uncertainty of business investments, makes old age a constant terror in the minds of people who have passed their prime.

The answer, in the minds of increasing numbers of people, is old age pensions. Such provision for declining years need not in any degree impair the ordinary incentive to work and to better one's status, but it would supplement modest savings and would go far to relieve the all but universal fear among working people of an impecunious old age. The New York State Commission on Old Age Security found in 1930 that approximately 12 per cent of those over 65 years of age were in need of public assistance, and the Massachusetts Commission on Pensions discovered that 11.4 per cent needed help. In agricultural sections the extent of dependency is high. For example, five Canadian provinces found that 38 per cent of those over 70 years of age needed pensions. Among



European and other countries old age pensions have been in effect for many years. In some countries<sup>1</sup> the government bears the entire cost. In others<sup>2</sup> the government adds to funds contributed by employers and employees. In the United States 16 states<sup>3</sup> and the territory of Alaska have passed old age pension laws. The legislation thus far enacted, however, is far short of adequate to the desired end.

This provision by the state for old age would seem to be justified on social and ethical grounds alone. However, it is important to bear in mind its relation to our economic problem. Removing aged people entirely from competitive industry would lessen the growing congestion of the labor market. Furthermore, it would remove a part of that urgency to accumulate savings and thereby to add to the swollen fund of capital which we have seen to be a principal cause of recurrent depression. The increase in longevity accentuates this urgency. Forced saving is one of the evils of a society that is under the necessity of raising its consumption rate, and insurance against poverty in old age should be an aid to this end. "The savings of the poorer classes alone," says an unusually sagacious contemporary writer, "will be enough to overload business and bring on an occasional sick spell."<sup>4</sup> Whether funds for maintaining such insurance are raised by taxation or through a contribution plan, it will mean the diversion of unneeded savings into needed consumption—once more a spreading of purchasing power.

#### INSURE AGAINST UNEMPLOYMENT

This brings us to a consideration of the main body of workers, whose chief grievance against industry is that it

<sup>1</sup> Great Britain, Irish Free State, Denmark, Russia, Canada, Australia, New Zealand, and the Union of South Africa.

<sup>2</sup> Bulgaria, Czechoslovakia, France, Germany, Greece, Hungary, Italy, Yugoslavia, Luxemburg, Portugal, Spain, Sweden, and Chile.

<sup>3</sup> California, Colorado, Delaware, Idaho, Kentucky, Maryland, Massachusetts, Minnesota, Montana, Nevada, New York, New Jersey, Utah, West Virginia, Wisconsin, Wyoming.

<sup>4</sup> Coyle, David Cushman, *The Irrepressible Conflict—Business vs. Finance*, New York, The Author (101 Park Ave.), 1932.



offers no security of employment. Unemployment insurance is an indispensable measure of protection for the mass of workers against the loss of their jobs. Whether it is accomplished by state or by voluntary action, whether the funds are provided by employers alone, by employers and employees, or by both with the addition of state aid, are not questions of primary importance here. Nine countries in Europe,<sup>5</sup> Queensland, Australia and Mexico have compulsory systems of unemployment insurance. Nine other countries<sup>6</sup> in Europe grant subsidies to unemployment funds established by trade unions. In the United States only one state, Wisconsin, has enacted a compulsory unemployment reserve law. Under this law the cost of unemployment benefits is put on employers as it is under workmen's compensation laws for industrial accidents. In Europe unemployment funds are built up by compulsory payments by employers and employees and by government contributions. Voluntary unemployment insurance in the United States has been established on a small scale by trade unions, by joint contributions of trade unions and their employers, and by companies which either assume the entire cost or ask their employees to share it.

Here again, it is important to consider both the immediate and the long-time economic gains to be realized from such a social insurance project. The immediate gain in prevention of suffering and anxiety and the building of morale is obvious. Mr. Whiting Williams gives a classic description of the human aspects of unemployment in his book, *What's on the Worker's Mind* (New York, Charles Scribner's Sons, 1920). More recently, Clinch Calkins in her *Some Folks Won't Work* (New York, Harcourt Brace and Company, 1930), has presented the human evidence very convincingly.<sup>7</sup>

<sup>5</sup> Great Britain, Italy, Austria, Luxemburg, Germany, Russia, Bulgaria, Poland, Irish Free State.

<sup>6</sup> Belgium, Denmark, France, Norway, Netherlands, Finland, Spain, Czechoslovakia, Switzerland.

<sup>7</sup> For fuller case histories see National Federation of Settlements, Unemployment Committee, *Case Studies in Unemployment*. Philadelphia, Press of the University of Pennsylvania, 1931.



The substitution for our present demoralizing charity dole of a form of insurance benefits, bestowed as a matter of right by public authority, would be a long step in the direction of a more Christian system. For Christianity requires that men be treated as persons and as brothers. When one has given to society according to his ability, he is entitled in honor to receive according to his need.

But what of the economic results to be hoped for from such a measure? First, it would further relieve the forced saving which we have already noted and contribute to the all-important increase in purchasing power for the mass of the population. Secondly, it would almost certainly reduce unemployment through the very considerable incentive it would give to employers to regularize industry through economies and rational planning, in order to avoid the necessity of paying continuously into unemployment funds.

#### SHORTEN HOURS OF WORK

Moving forward in our scheme of social-economic organization, we come next to the proportion between work and leisure time. It is quite evident that even the elimination of the very young and the very old workers would leave a production capacity in excess of present consumption requirements. The conviction is growing that a drastic reduction in hours will be necessary—possibly to the extent of introducing a six-hour day. No one can predict how much productive work society will support in the decades just ahead. But we are here concerned chiefly with the larger social aspects of the progressive shortening of the work period. It needs no argument to show that leisure is not an unmixed blessing and that it may be demoralizing. What will men and women do with their newly acquired leisure?

Here is where the interrelatedness of all the measures we are considering becomes particularly clear. Our main intent in this chapter is to show how essential to economic planning is an inclusive scheme of mutually related measures based upon some philosophy of continuous social develop-



ment in the modern world. Such a philosophy is conspicuously lacking in popular thinking to-day. We move in a haphazard fashion.

Principal Jacks has made familiar in his writings and lectures the idea of education for leisure.<sup>\*</sup> Nothing is more essential in a society that is being progressively emancipated through machinery from grinding labor. We began this outline with the proposal that all children should be kept in school through the years covered by the high school course. If this should be done, the educational level of the population would be considerably raised and a foundation for cultural pursuits would be laid. Upon that foundation it should be possible to develop adult education projects that would not only enrich the life of the people but also greatly stimulate the demand for *cultural* as contrasted with *material* goods. And while there is some limit to the material goods a population can wholesomely consume, there is no visible limit to its capacity for cultural goods—science, literature, music, the fine arts, and religion. This means that much of our capital equipment could be diverted into the production of cultural goods and services. The revival of interest in adult education, based on a better understanding of the possibilities of adult learning, gives especial interest and promise to this aspect of the reconstruction program.

#### DISTRIBUTE INCOME MORE EQUITABLY

But none of the measures thus far discussed will prove adequate without a change in national policy with reference to the distribution of income. We have seen that even now we produce enough, in a so-called normal year, to increase by an appreciable amount the spending power of the lower paid wage earners if the very large income surpluses were socially absorbed. But even if we were ready with an adequate plan for the social support of the many enterprises—hospitals, libraries, colleges—which are now carried on by the wealthy,

<sup>\*</sup> Jacks, L. P., *Education of the Whole Man*. New York, Harper & Brothers, 1931; *Education Through Leisure*. New York, Harper & Brothers, 1932.



we should be a long way from a solution of the economic problem. For the purchasing power of the nation as a whole must be very greatly increased if we are to avoid an arbitrary stoppage of technological development and a resulting stagnation of industrial science. More goods are needed—vastly more, but if they are going to be consumed, a much larger proportion of the national income must go into wages and salaries. The “great bad” in the economic system is the disparity between the producing capacity of the nation as a whole and the living standards of the masses. The notion that wages should be fixed in accord with supply and demand in the labor market must be abandoned once and for all if economic progress is to continue. The living standard of the people is a national asset or liability. It is fundamental to the nation’s life.

Christianity and sound economic practice alike require that a much larger share in increased production shall go into the hands of the workers, who may thereby be enabled to live on an increasingly improved scale. The present failure to provide for this is the cause of enforced operation of industry far below capacity. A striking illustration of existing underconsumption is that of industrial housing. The dwellings of our industrial population are for the most part a mockery of our industrial development. It is probably safe to say that the larger part of our surplus capital at this moment could be profitably invested in housing, if the margin in the worker’s budget allowed for rent or for investment in a home (a form of consumption) were moderately increased. Housing development in certain European cities, notably in Vienna, make the living quarters of our lower paid workers look mean and degrading. Along with better housing will go every form of social, moral, and economic improvement.

#### TEST OUT ECONOMIC INCENTIVES

No scheme of reorganization would be adequate, from a Christian point of view, that did not take account of a Christian appraisal of motives. In our survey of incentives, in Chapter VIII, we saw that the emphasis on profit seeking



which characterizes the existing economic order is out of harmony (a) with our knowledge of the range of human motive, and (b) with the actual economic requirements of the nation. It is true that motives cannot be regimented; the inner life of man cannot be regulated by legislation. But it is the business of society to put as great a premium as possible upon those motives that are socially most desirable, and to see that undesirable motives are allowed to die of disuse. It is a fact of much significance that cynical critics of Christian idealism as applied to the economic order base their criticism not upon the validity of the ideals set forth, but on the alleged impracticability of such ideals in a human society. In such a situation the only justifiable course is to proceed experimentally and to make a demonstration step by step, of the applicability of ideals to the world of affairs. If we find that the ideal of coöperative, mutual service will produce more and better goods and a more satisfactory distribution of them, the case will be clear. If we find, as Sir Josiah Stamp, the eminent British economist, has suggested, that "*possibly* an actual economic price to be paid for substituting ethical principles in ordinary economic life for existing economic principles," then we must answer his question, "Are we prepared to pay the price for it?"

#### PLANNING IN CONCRETE TERMS

We have sketched some of the requirements of economic reconstruction in terms of social goals. In the previous chapter it was noted that such goals could be realized only by making available a vastly greater body of economic data, by establishing some agency for authoritative planning of production and distribution, and by placing the credit function under social control. This requires a specific set of economic arrangements and specialized agencies for their operation. How shall we proceed?

Fifteen or more "plans" have been put forward by economists and students of social and political theory. One of them, the so-called Clark-Smith-Soule plan, is printed as an appendix for special study by the readers of this book.



It has the merit of resting upon a searching criticism of the existing system and yet involving no preliminary choice of a revolutionary philosophy. It is the contention of the communists that no successful planning can be carried out under capitalism. Even if, for the sake of the argument, it be admitted that this may be the ultimate conclusion to which experiment will lead, there is all the practical difference in the world between an assumption made as a condition of experiment and a conclusion reached as the result of experiment.

The plan referred to was drafted by four economists—J. M. Clark, J. Russell Smith, Edwin S. Smith, and George Soule. It has been published by the *New Republic*. The views upon which it rests have been elaborated by Mr. Soule in his book, *A Planned Society*.<sup>\*</sup> It recommends voluntary planning to be carried on by a national economic board of experts in finance, industrial management, labor relations, agriculture, etc., to be appointed by the President with the consent of the Senate. This board would gather data for a plan for production and consumption, would "initiate organizing councils in the various major branches of production and distribution," and would coöperate in all the work of organization and recommend legislation. There would also be temporary organizing councils in each branch of production and distribution, which would include representatives of all the interests concerned. Each of these temporary councils would work out a plan for the permanent organization of its own industry. It is suggested that the following policies are essential to successful national planning: limitation of output where necessary, price control which will maintain harmony between the prices of various articles and between prices and wages, the control of credit and finance, a nationally organized labor market with unemployment insurance and a "more general organization of labor," "an elastic system of public works," the use of public finance to counteract business depression, and better adjustment to international economic factors.

<sup>\*</sup> New York, Macmillan Company, 1932.



## THE PRICE OF PLANNING

To be sure, it must be taken for granted that the national planning board provided for in this plan will be able to do by means of influence and persuasiveness what it lacks authority to do directly. Its recommendations would have to be accepted not only by industrial groups acting voluntarily, but by the government and by government agencies. The Federal Reserve Board would need to back up the planning board's recommendations in the matter of credit expansion or curtailment. The government itself would need to act on the recommendations made concerning the planning of public works. Much has been made of the political difficulties in carrying out an extensive public works program that requires sharp restraint in time of prosperity and quick extension in time of threatened depression. Admittedly the administration of such a program requires political stamina and courage of a high order. A "pork barrel" program cannot possibly serve the ends of economic planning. But the high probability that such a cyclic administration of public works, planned on a vast scale, would go far to smooth out the business cycle makes it important to try the experiment and meet the political problems as they arise.

In this connection a current fallacy must be pointed out concerning national economy as a measure of combating depression. The slogan of governmental economy is used quite uncritically as if retrenchment in governmental expenditures, and therefore reduction in taxation, were always acts of political virtue. A sound program of public welfare may require a higher tax rate than we now have. As we pointed out in Chapter VII, the tax dollar may be our very best and most profitable expenditure. Expensive government does not mean one that levies high taxes, but one that gives a small return in services for the amount collected.

If the measures suggested in this chapter, and something on the order of the Clark-Smith-Soule proposal, are to be carried out, we must expect with the improvement of economic conditions a larger tax budget. Not only will funds



raised by taxation be needed for the services that must be developed and for the vastly greater educational program that is indicated, but further taxation of incomes and of inheritances is likely to prove the most effectual way of preventing too rapid an accumulation of capital in proportion to consuming capacity.

The control of credit called for in such a program of planning is one of its major requirements. Inflation must be prevented and government will be obliged to exercise all the authority necessary to that end. We may have to consider not only stringent financial regulations but the requirement of a certificate of economic need before new mines are opened, new railroads or other transportation lines built, or new plants constructed in the basic industries.

Price stabilization in a modern industrial nation becomes a moral necessity. Our economic planners must find ways to accomplish it. This may require more governmental initiative than has ever been tried in America.

In order to secure a national minimum standard below which no American family will be compelled to live, we must have either by effectual moral consensus or by social compulsion, either by voluntary action on the part of industry or by legislative enactment, minimum wage levels. Here again, the choice is voluntary action, and the arm of government should be used only when it becomes the undisputed instrumentality of the public will in carrying out considered social purposes.

Effective planning will require also a new attitude of coöperation on the part of the various functional groups in our economic society. Crude competitive practices on the part of employer and labor groups, the readiness of one labor group to exploit another, the habitual placing of both employer and labor interests against those of the community—all these and similar anti-social attitudes and practices must give way to a concerted effort to promote the welfare of the whole people.

Although it may not be the responsibility of the Christian citizen or of the Church as such to frame a scientific plan for reconstructing society, this book has been prepared on the



assumption that Christianity is concerned not only with the enunciation of principles, but with the techniques of human relationships which such social reconstruction involves. For social rebuilding is a process of social education and in this process Christian ethics has a central part.

It must be remembered, too, that, when all has been said, which wisdom dictates regarding social reconstruction, it remains, as always, a fundamental task of Christianity to develop the kind of personality and character that can work social plans, use social tools, and bring ideals into actuality. Without sustained purpose and discipline in the life of the individual all social planning is useless and all worth-while goals are impossible of realization. Religious and moral education are indispensable in any program of social rebuilding.



## DISCUSSION SYLLABUS

The leader will see at once that it is necessary and desirable to select from the lists of questions that follow. It is better to discuss thoroughly and profitably a few questions than to try to cover all the ground. At the same time, it is important that the group should feel that it is coming to grips with major problems. Members of the group may be encouraged to consider, individually and in groups of two or three, questions which, for lack of time, cannot be adequately discussed in the regular sessions.

In order to make the work of the group cumulative, it is suggested that one person be made responsible to note the conclusions reached in each discussion which might be useful as data toward the plan to be built in Chapter XII.

Leaders who feel the need for special aid in managing a discussion of this kind will find available help in *Creative Discussion*, by Professor A. D. Sheffield, Association Press, 50 cents.

### CHAPTER I: THE ECONOMIC CRISIS AND ITS CAUSES

1. How has the depression affected your community?  
What are some of the emergency measures that people you know about have been forced to take which most upset their life plans? (The evidence should consider all economic groups in the community. The suggestions may be listed on a blackboard.)
2. Which of these results seem to be different from those of the last period of hard times? Why? Which of these were most unexpected? Why?
3. What causes for the depression are most frequently mentioned by your acquaintances?



4. What figures do your local associated charities or Mayor's Committee on Unemployment give as to the percentage of the people in your community who have needed help? What economic groups were most affected? How do you think this number compares with that of the depression of ten years ago?
5. By what methods has money for relief been raised in your community?
6. To what extent has the help given covered the needs of the people? At what level were they maintained? What degree of need did they reach before they received any help?
7. What factors in the depression arising outside the United States have affected your community? (Consult a local manufacturer who does export business, and a banker, to find out some of the effects of reparations adjustments, international loan difficulties, etc.)
8. If you had been in the position of a recipient of relief from a community fund, what do you think would have been the effect upon your personality? Consider this in the light of your observation of others.
9. Consider the facts presented in the first chapter from the point of view of the individual Christian citizen. As the study progresses the question will arise again and again, What can the individual do about it?

## CHAPTER II: OUR ECONOMIC SYSTEM AS A WHOLE

1. At what points, if any, do the popular arguments for giving to relief funds bear on the problem of changing the present economic order?
2. At what points has the present order seemed weakest in resisting depression?
3. Do the newspapers and periodicals read by this group suggest needed adjustments? What do they propose?
4. At what point are the makers of public opinion in your community touching the basic questions of our economic order? The leader might assign one aspect of this ques-



tion to each member of the group for special study: e.g.,

- (a) One might interview several ministers to find out their attitudes, and the content of their recent sermons or writings touching these problems.
- (b) Another might analyze the editorials of local newspapers for several months and perhaps interview the editors.
- (c) Another might analyze a sampling of the weekly and monthly periodicals most widely read in the community.
- (d) Another might study the publicity of the local chamber of commerce.
- (e) Another might study the advertising bulletins and circulars distributed by the local banks, possibly supplementing this by an interview with a representative banker.
- (f) Another might study radio broadcasts for a week or two, supplementing this with an interview with the manager of the local station, or by writing to a much used station, to find out its policy with reference to the broadcasting on economic questions.
- (g) Another might interview several labor union officials to find out what labor is reading and saying on the problem.

The results of these inquiries should be studied for indication that these various groups are or are not suggesting how changes can be made as well as what changes in our economic life are desirable.

5. Would society gain by going back to the days before the machine revolutionized industry? Why? Could it do so?
6. How can corporation officials and stockholders be made sensitive to ethical issues?
7. What, in the light of Christian standards, is open to criticism in our economic order? (This question may be answered differently at different stages of this course; it is raised in order that it may be kept in mind as the study proceeds.)



## CHAPTER III: THE DISTRIBUTION OF WEALTH AND INCOME

1. How far is it true that if the people who received help in this depression had planned wisely they would not have needed charity?
2. From what class of persons has most of the money for relief in your community come?
3. Would those who have suffered most from the depression be better or worse off if income taxes were higher and other taxes lower?
4. Does the fact that 70 per cent of relief to date has been government money—city, county, and state—suggest that there should be more or less help in future from private sources?
5. Comment on this statement: "Most relief never gets into statistics, being given by poor working people to still poorer relatives and neighbors."
6. Should there be a legal limit to the amount of wealth or income a person may have?
7. If private fortunes and earnings were materially reduced would the various welfare and research activities now carried on by private benevolence suffer?
8. Do you favor a minimum wage fixed by law? Why? What do you regard as a minimum budget for a worker's family in your community?
9. What do you think of the inheritance tax as a means of preventing too great a concentration of wealth? Should the amount that a person is allowed to inherit be limited?
10. What bearing have these considerations on the Christian doctrine of stewardship?

## CHAPTER IV: THE INDUSTRIAL WORKER TODAY

1. Have members of the group report on interviews with selected employers and workers, both union and non-union, from several typical industries of the town, giving information which will throw light on such questions as these:



- (1) What percentage of workers have been laid off entirely?
- (2) What percentage have been put on part-time work?
- (3) How much, if at all, have wage rates and actual earnings been reduced? Have such reductions been greater than the reductions in the cost of living? Is adequate information available as to the cost of living in your community?
- (4) How do reductions in salaries compare with reductions in wages?
- (5) What part, if any, had the workers in determining the revised wage rates? What part can they have under existing conditions?
- (6) To what extent do you consider these reductions necessary measures of economy? Examine your facts for instances of (a) union groups who maintain wages at an unreasonably high level; (b) employers who seized an opportunity to force wages unreasonably low.
- (7) Have consumers any responsibility in this connection? If so, how can they exercise it?
2. What progress has been made in the industries in your town in improving the conditions under which people work?
  - (a) In increase of safety devices? (b) In education for safety? (c) In wages and hours? (d) In provision for sickness, old age and unemployment? (e) In protection of women?
3. Which of these improvements have come through legislation? Which through voluntary action by single companies or by an association of companies in coöperation? Which through the influence of labor unions? Did the employers resist changes which came through legislation? If so, why?
4. Is the right of labor to organize recognized by local employers?
5. Are the workers allowed to exercise their rights of free speech, hold meetings on public property, and picket peacefully during time of strike?



6. In what ways can members of this group improve industrial conditions and relationships?
7. What part are the churches and other religious organizations taking in improving the condition and status of the workers? What more should they do?

#### CHAPTER V: THE FARMER'S ECONOMIC PLIGHT

1. How have we become aware of the difficulties of the farming population?
2. In our experience, what have been the main recent economic changes in agriculture as contrasted with pre-war days?
3. What evidences have we seen of the interdependence of farm and urban life?
4. What are the main problems that have arisen as a result of changes in the agricultural situation and changes in the relations of agriculture to urban life?
5. Proceed to analyze these problems so far as data and resources permit: e.g.,
  - (a) Which of them are apparently in the process of being mastered?
  - (b) Which are apparently growing more troublesome?
  - (c) Which are likely to persist even after the depression? Why?
  - (d) For which has this group suggestions toward solution? What are they?
  - (e) What steps would be necessary to initiate the kind of action desired? What can the individual citizen do? What government action is necessary?
6. Have the churches and other religious organizations any particular function in the betterment of the rural community? Do they count more as a social resource than those in the cities?

#### CHAPTER VI: THE STATUS OF MANAGEMENT AND INVESTORS

1. Under what conditions would you be willing to have a business in which you own shares run at a loss for the



benefit of the employees after your stock had ceased to pay dividends?

2. Consider some of the unexpected depreciations during the depression in investments supposed to be sound. Who suffered most as a result?
3. What has the effect been of bank failures in your community in changing attitudes of investors? Do the changed attitudes indicate that changes will be made in the economic system?
4. To what extent does this destruction of security affect the widely prevalent idea that every one who is energetic, industrious, and thrifty can build up adequate protection for himself and his family?
5. Does the custom of capitalizing initial high earnings of an enterprise manufacturing a new commodity create a special hazard for later investors and owners? If so, is it right?
6. Is the rapid development of science and engineering constituting an asset or a liability?
7. When a disproportionate amount of the social income goes into savings instead of consumption, what groups suffer most?
8. Is profit seeking an enemy of security?
9. Is it as true as formerly that what is good for the individual is good for the group?
10. How can managers and investors "take hold" in improving the economic situation?

#### CHAPTER VII: THE CONSUMER AND THE ECONOMIC SYSTEM

1. What is the respective responsibility for the quality of goods sold—
  - (a) of the manufacturer?
  - (b) of the retailer?
  - (c) of the government—local, state, or federal?
  - (d) of the consumer—individually and collectively?How can the responsibility be discharged?



2. In what ways do your community and state safeguard consumers? In what other ways should they do so?
3. What changes would you like to see come about in advertising? (Members of the group might make a collection of typical advertisements.)  
How can advertising standards be changed?
4. Do you believe in a high protective tariff? Why or why not?
5. What type of taxation do you favor? Why? Who bears the main burden of it? What attitudes toward government does it build?
6. What is being done to reduce medical and funeral costs? Have some one write to the Committee on the Cost of Medical Care, Washington, D. C., to find out about their studies. Have some one interview a prominent physician, a leading undertaker, and the local public health officer for information on this question.
7. What experience have members of this group had with consumers' coöperatives or with Consumers' Research, Inc.?

#### CHAPTER VIII: HUMAN NATURE AND THE ECONOMIC ORDER

1. What percentage of the people that you know who are unemployed would not work if they could find something to do? How do you know?
2. Discuss this statement: "Food, clothing, and shelter are not enough. People demand an opportunity to do useful work."
3. What incentives now stimulate you to do your best? What part does material reward play?
4. If you were appealing to motives other than that of profit among people you know, how would you base your appeal? Why?
5. To what extent could those now in charge of business and industry in your community adapt themselves to a less competitive economic order if one were established?
6. Would it be harder for them to reduce living standards than for their families?



7. What do you think of the statement, "Human nature cannot be changed"? What do Christians in general think about it?
8. Comment on Newton D. Baker's statement that "to aid in emergency relief does not imply that one does not wish to work for more fundamental changes which will make this relief eventually unnecessary."
9. Is the average citizen helpless before the need for better economic arrangements or are there ways in which he can exert effective influence? Be as specific as you can.

#### CHAPTER IX: OBJECTIVES IN ECONOMIC RECONSTRUCTION

1. What ideas are prevalent in your community about how society should be improved? With which of them do you agree? How have these ideas been changed by the depression?
2. In your community how does Christianity affect the ideas people hold about improvements in our social order? Is the creating of a better community considered a part of the function of religion? If so, in what ways does it contribute to this end?
3. To what extent do you consider economic security a test of the soundness of our society?
4. What do you consider minimum standards in working conditions? What important problems of the good society will remain after we have secured the economic necessities for every one?
5. Is the use of leisure a concern of religion? If so, in what way?
6. How is the profit motive related to the ideals of Christianity? Is competition inconsistent with brotherhood as a social ideal? Can an economic order be made to run without the desire for profit and competitive advantage?
7. If you were dictator in this country, what changes would you make in the distribution of wealth?
8. Could better results be obtained by public ownership or public control of the principal means of production?



From the Christian viewpoint, what is "private" business?

9. To what extent can our economic life be confined within national limits? Is it desirable to build self-sufficient national economic units or a world-wide economic system? How is war related to economic problems?
10. How do you appraise the progress in achieving the objectives mentioned in the text:
  - (a) What specific steps have been taken in the last ten years?
  - (b) What should be the next steps for your state legislature? Discuss the prospects in the light of recent legislation.
  - (c) What should be the next steps in national legislation? What help may be expected from recent and pending legislation?
11. If you as an individual were convinced that these objectives were right, what first steps would you take toward influencing your community to move toward them? What change would you have to make in your own way of life if your action and your beliefs were to be consistent?

#### CHAPTER X: SOME RADICAL PROPOSALS

1. Why are the proposals in this chapter described as radical? What is the "conservative" program offered in their place?
2. Why is it that the word "socialism" so often sets off the emotions of members of the churches?
3. Why do the communists believe that religion is an opiate for the people?
4. Construct a balance sheet showing the ways in which you think the Church has helped and hindered social progress throughout the centuries. What features of organized religion are especially open to criticism on social grounds?
5. What do we mean by "revolutionary"? Might a revo-



- lutionary change be brought about by gradual, "evolutionary" means, and without violence? Illustrate.
6. Is the question of method as important from the Christian point of view as the question of goals? Is violence ever justified as a method of social change? Why?
  7. How do we measure progress? By what criteria do we decide that any period of history or any event contributes to progress?
  8. Discuss this statement: "The common man will not believe in a God of love until we make love the organizing principle of society in all its relations—economic, international, racial as well as individual."
  9. Arrange to give a hearing to several fundamental critics of the present system, including a socialist and, if you can, a communist. If a visit from them is impossible, compare your conclusions with the policies of their parties as stated in their official documents, such as were prepared for the 1932 Presidential election. (The *New Republic* of July 27th printed in parallel columns a summary of all 1932 party platforms. For those who are completely unfamiliar with the criticisms raised by communists, for example, it is easy to get a glimpse of their methods by buying a copy of their paper *The Daily Worker*.) If radical speakers accept your invitation, send them in advance a summary of your previous discussion and ask them to comment candidly on it from the point of view of the political group they represent. In cities where radical political or labor groups maintain headquarters, members of the group may find it profitable to visit them and thus learn at first hand their attitudes and points of view. (See *Religion Lends a Hand*, by James Myers, Chapter XII, for a description of such a trip.)

#### CHAPTER XI: THE BASIS OF ECONOMIC PLANNING

1. To what extent does the present method of relieving the unemployed safeguard destitute families from anxiety about their future?



2. Comment on the statement that "too many unemployed are being set to work on non-essential improvements in city parks and in the building of roads not urgently needed, instead of on housing, and other projects which are urgently needed for the community's health."
3. Have members report on some of the methods of stabilizing industry now in force, including:
  - (a) The Reconstruction Finance Corporation for Loans.
  - (b) The practice of large companies of replacing equipment not immediately needed in order to enlarge business.
  - (c) Replacement of inventory by department stores and others ahead of actual demand.
  - (d) "Made work" by municipalities, states, and federal government.
  - (e) "Spreading work"; e.g., giving all employees half time work instead of laying off half of them.  
(A member of the group might write to the President's Organization on Unemployment Relief at Washington for information concerning the plans of Procter & Gamble, the General Electric Co., the Goodyear Tire Co., etc.)
4. Which of the proposals above, if any, promise protection against repetition of the experiences of this depression?
5. Why do not the federal and state governments do more in the way of long range planning of public works for execution when times are bad?
6. Have members of your group consult one or more bankers as to how the United States can eliminate bank failures in hard times—in particular whether all bank deposits should not be guaranteed by the government. (Have in mind what is said in the text about the experience of Canada in the matter of bank failures.)
7. What kind of child labor law has your state? Do you think it is adequate?
8. Has your state passed an old-age pension law? If not,



what preliminary work, if any, has been done. (A letter to your state senator or assemblyman will probably bring the information you want.)

9. Why do you think we in this country have been so slow to take any kind of collective action toward economic planning?
10. Consider in the light of Chapter II the advantages and disadvantages of "keeping government out of business."
11. Have a member of the group write the Metropolitan Life Insurance Company, New York, about the spread of group insurance in business and industry. Discuss the adequacy of this type of insurance. What portion of the family risks does it cover?
12. Consider the value of insurance against unemployment. Since life insurance has been so widely used, why has not insurance against social hazards—industrial accidents, sickness, unemployment, old age—been more generally adopted?
13. What attitude should the churches and other religious organizations take in economic planning? What attitude in bringing particular measures to pass?

#### CHAPTER XII: BUILDING AN ECONOMIC PLAN

1. Let the group build its own plan, passing the various specific measures one by one.
  - (1) Bring forward, as materials, the conclusions reached in the preceding discussions.
  - (2) Examine along with these the major proposals in the plan in the Appendix, together with any others with which members are familiar. Consider these plans in terms of specific proposals such as
    - (a) Should we adopt much more drastic child labor laws?
    - (b) Should we have compulsory employment insurance as a state or as a federal measure?
    - (c) Should we reduce hours of labor still further?



- (d) How much control should be exercised over prices? Over banking?
- (e) How much authority should be given to planning boards?

Scrutinize each proposal in terms of your willingness to see the industry in which you work, or in which you have stock, operate under the resulting plan.

- 2. How do the measures brought forward relate themselves to the objectives outlined in Chapter IX?
- 3. How may individuals be effective in furthering the aims of planning? What ways are open to them to organize for collective effort for purposes that cannot be accomplished individually?



## SELECTED READINGS

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\* For the help of readers who are less familiar with the literature of current economics, a number of volumes have been starred as at once important, reliable and readable. In addition, some of the pamphlets are especially valuable for the same groups of readers.



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## APPENDIX

### A DIGEST OF THE CLARK-SMITH-SOULE PLAN

INTRODUCING the plan, the authors say that "it is generally agreed that there is something seriously wrong with private enterprise as at present operating. . . .

"It is frequently asserted that a collective economy would be a remedy for this grave evil. . . . The more pertinent course seems to be to see what can be done to introduce collective planning into our existing system. . . . It does not appear to us important either to safeguard private enterprise for its own sake, or to seek for a collective economy for its own sake."

The authors "advocate planning of the voluntary sort, without giving any public body power to draw up schedules of production and compel adherence to them. . . . Business appears to realize that its situation is serious, not merely this year but for the future, and to be earnest about the need of rescuing itself. The proposed plan gives it a chance to do so. . . . The main hope of results lies in the combination of scientific fact-finding, with a standing organization, representing all the interests involved."

#### *Objectives:*

- (1) "Not general limitation of output, but increase of total production; not stabilization at any given fixed level, but regularized growth. . . .
- (2) "Increasing the proportion of income going to the majority in the lower income ranges, who will spend more of it for the products of mass production.
- (3) "Especially raising the lowest wage rates. . . .



- (4) "Improving or eliminating the highest cost concerns. . . .
- (5) "Making purchasing power more stable . . . by the use of reserves or insurance against unemployment.
- (6) "Discovering and bringing about a desirable balance between productive equipment and demand, with adequate anticipation of growth.
- (7) "Discovering and stimulating other ways of using capital than wasteful duplication of existing facilities.
- (8) "Maintaining a balance between savings and the expenditure of capital funds for plant, equipment, and materials; and bringing about conditions conducive to a fairly steady flow of both.
- (9) "Regularization of capital expenditure and of the flow of raw materials. . . .
- (10) "Stabilization of price levels, so far as practicable, but not a price system pegged at certain points only.
- (11) "Systematic canvassing of the possibilities of latent as well as actual demand, including demand which might be made actual by fuller and more stable employment and higher wages."

The authors advocate "an elastic system of organizations for planning, relying on voluntary action to the fullest extent consistent with ensuring that whatever action is taken, is guided by the interests of the whole community, and that these interests are adequately protected."

The scheme of organization proposed includes:

- A. *A National Economic Board* of 7 (or 9) experts to be created by an act of Congress. These "should be men of the highest caliber, acting in the interest of the whole country, not representing any particular economic interests . . . expertly informed on: finance, scientific management, labor relations, economics. But a primary qualification should be character and background tending to impartial thinking, and the ability to act independently. . . .

"The Board should be appointed by the President,



with the advice and consent of the senate for terms of seven years, one term expiring each year." They should be chosen from lists of candidates submitted by the United States Chamber of Commerce, the American Federation of Labor, the Taylor Society, the American Economic Association, etc.

The Board's duties should be:

- (1) To gather information through surveys;
- (2) to institute organizing councils in the various major branches of industry (including production, distribution, finance);
- (3) to coöperate in the organizing process;
- (4) to propose legislation;

The Board should have access to all statistical data already available and should have power to acquire further data.

B. *Non-permanent Industrial Organizing Councils* in "the various major branches of production and distribution" with "genuine and adequate representation of all the interests essentially concerned, including large and small producers, organized labor, consumers, and in some cases producers of essential raw materials, and distributors. . . . They should have effective *liaison* along the lines of vertical integration [*i.e.*, industry by industry]. . . ." Permanent councils should be organized for each industry within two years.

C. *Permanent Organizations in Particular Industries.*

Among the possible forms are:

- (1) A nucleus of existing trade associations "with additional representation of all essential interests." These should establish uniform accounting, gather and circulate essential statistics obtained by the associations and by the national survey and should have power provided for in the following section, to facilitate the regularization of capital expenditures;
- (2) Organizations "with power to control production . . .



subject to public power to control prices and some jurisdiction over capital expenditures for expansion. . . ."

- (3) Organizations with power temporarily to allot quotas of production in overexpanded industries subject to the power of the National Planning Board to demand facts on productive capacity, output, costs and prices; government control of prices and profits, if necessary.
- (4) Private consolidations with status of public utilities.
- (5) Public corporations may be set up to operate overexpanded industries in which private enterprise offers little chance for improvement.

Numbers (2) or (3) should be used only temporarily and as emergency measures, with public control, accepted by industry as an exchange for partial exemption from the anti-trust laws. The duties of these organizations would be "the general promotion and carrying into effect, in their several fields, of the purposes of the national economic program as herein set forth."

A basic *factual survey* should be made to gather data on

- (1) "Increase in production, sales, etc., in the various branches of production and distribution. . . ."
- (2) "Increase of productive power and history of surplus capacity over actual production" in relation to different degrees of regularity of operation of the combined efficient and inefficient equipment;
- (3) "Consumption and standards of living by groups, income, total and per capita, and how divided between: (a) expansion of existing industries, (b) development of new industries; . . . (c) professional and personal services; (d) savings and how they were used; . . . the effects of . . . social insurance. . . ."
- (4) The changes in the business cycle as affected by consumers' expenditures, consumers' credit and savings, employment and unemployment, business failures, and the net earnings of industries in relation to sales, investments, wages, and salaries;



(5) A study of the potential demand for commodities, assuming that the standard of living is to be raised.

*Policies:*

- (1) "Any permanent limitation of output should be accompanied by effective regulation, including power to control prices where necessary."
- (2) "The approximate stabilization of general price levels" is important. The emphasis in price control should be on differences in cost of production between efficient and inefficient concerns rather than on the extent of return on investment.
- (3) "A nationally organized labor market with a nationwide employment service, vocational guidance, and vocational re-education for workers displaced from their trades, . . ." with unemployment insurance in some form, greater uniformity between the states in labor legislation, a "more general organization of labor," and "a gradual and progressive shortening of the standard [working] week."
- (4) Seasonal fluctuations in industry may be left to voluntary action.
- (5) Planned public works timed so as to aid the recovery of business.
- (6) The government should manage its expenditures, taxation, and borrowing so as to facilitate normal economic activity.
- (7) The fields of credit, investment, and speculation should also be organized to provide for "unitary control, or at least unified policy."
- (8) "Planning by one country is insufficient without taking into the reckoning the whole range of international economic factors. . . . It is not in our interest to insist on international debt payments which will seriously handicap Europe's recovery or threaten her continued economic stability."